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August 31, 1983

Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

I respectfully submit my Annual Summary of Reports for 1982-83. This year's summary of reports reflects a change in reporting periods, from calendar year to fiscal year. We made this change so that our annual report will correspond to the State's annual fiscal cycle.

The summary of reports presents an overview of the work completed by the Office of the Auditor General from January 1, 1982, to June 30, 1983, and illustrates the scope of audits undertaken during those 18 months. We include summaries of reports issued by the Financial Audit Division and the Performance Audit Division, and a summary of activities of the Investigative Audit Unit.

Respectfully submitted,

Thomas W. Hayes

THOMAS W. HAYES
Auditor General

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INTRODUCTION

We present to the Legislature and to the citizens of California a summary of work performed by the Office of the Auditor General from January 1, 1982, through June 30, 1983.

The Auditor General is the only independent auditing organization in the State with authority to review all programs of state executive agencies and departments. By conducting financial, investigative, and performance audits, and by performing special studies, the Auditor General provides the Legislature with objective information about the State's financial condition and the performance of the State's many agencies and programs. The Auditor General thus aids the Legislature in ensuring that state government is accountable to the citizens of California.

One of our major projects was the first financial and compliance audit of the State's combined financial statements for fiscal year 1981-82. This audit, conducted by the Financial Audit Division and covering revenues of more than $30 billion, was the largest financial audit of a governmental entity ever conducted. It involved a review of 69 separate state agencies. On the basis of the audit, the Auditor General issued a qualified opinion on the General Purpose Financial

Statements of the State and issued management letters relating to weaknesses in internal controls found in 43 different agencies or their affiliates.

The Investigative Audit Unit received and investigated 180 allegations of misconduct, fraud, or waste in state government since January 1, 1982. Most of these allegations were received over the toll-free telephone hotline that the Investigative Audit Unit operates 24 hours a day. The bulk of the allegations concerned improper personnel practices and abuse of state resources. The Investigative Audit Unit substantiated occurrences of improper governmental activity in over 20 percent of the complaints investigated.

The Performance Audit Division issued 68 audit reports during the eighteen months covered by this summary. The audits concerned programs operated by 42 different agencies and covered topics as varied as the collection of child support payments by district attorneys, conduct of the refugee resettlement program by the Department of Social Services, enforcement of the Political Reform Act by the Fair Political Practices Commission, and monitoring of long-term health care facilities by the Department of Health Services.

As in the past, the Office of the Auditor General has proved itself to be economical. In 1982, for example, the Auditor General made recommendations that should save the State at least $25 million. Furthermore, the Auditor General's annual financial audit of the State's General Purpose Financial Statements meets the requirements of bond rating agencies and results in significant savings to the State through lower interest rates on issued bonds. Throughout its audit activities, the Office of the Auditor General continues to stress its independence as well as its availability to legislators in their efforts to ensure accountability, effectiveness, and efficiency in state government.

FINANCIAL AUDITS

The major effort of the Financial Audit Division was an audit of the State's General Purpose Financial Statements. As a result of this audit, we issued management letters on weaknesses in internal controls in 43 state agencies. We also reported on the State Treasurer's statement of security accountability, collection activities at state agencies, California's statement of federal land payments, accounting records at Economic and Social Opportunities, Inc., and accounting methods for the State's hospital building account. Lastly, we completed two audits of the California Student Aid Commission's State Guaranteed Student Loan Program.

On the following pages, we summarize our audit of the General Purpose Financial Statements and discuss weaknesses in internal controls that we found during our audit. Additionally, we included summaries of other financial audit reports issued during the 18 months.

STATE OF CALIFORNIA: FINANCIAL AND COMPLIANCE REPORT, YEAR ENDED JUNE 30, 1982

This report contains the Auditor General's opinion on the State's General Purpose Financial Statements, the State's internal accounting controls, and the State's compliance with federal grant requirements.

General Purpose Financial Statements

We examined the General Purpose Financial Statements of the State of California as of and for the year ended June 30, 1982. Except as explained in the following paragraph, we made our examination in accordance with generally accepted auditing standards and generally accepted government auditing standards.

The State is party to numerous lawsuits, some of which are significant. However, the Attorney General has not provided us information on the potential outcome of these lawsuits. Thus, it is not possible at this time to estimate the effect of these lawsuits, if any, on the financial statements.

The State has not maintained adequate fixed asset records for its governmental fund type property, plant, and equipment. Consequently, the General Fixed Assets Account Group is not presented as required by generally accepted accounting principles.

Our opinion, based upon our examination and the reports of other independent auditors and except for the omission of the General Fixed Assets Account Group, stated that the General Purpose Financial Statements present fairly the financial position of the State of California as of June 30, 1982, and the results of its operations and the changes in financial position of its Proprietary Funds and Pension Trust Funds for the year then ended, in conformity with generally accepted accounting principles.

Internal Accounting Controls

As part of our examination of the General Purpose Financial Statements, we studied and evaluated the State's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and by the standards for financial and compliance audits of the Comptroller General of the United States.

We found that the State does not maintain sufficient records to determine or to estimate the historical cost of general fixed assets. Furthermore, the State does not consistently take inventory of fixed assets, and does not record all fixed assets in the property records. This weakness in accountability results in an increased risk of loss of assets and an inability of the State Controller to present the General Fixed Assets Account Group in the General Purpose Financial Statements.

Recommendation

The Department of Finance should require all agencies to comply with property accounting procedures that would allow the State Controller to include the General Fixed Asset Account Group in the General Purpose Financial Statements. In addition, property accounting procedures would assist in safeguarding the assets of the State.

Compliance With Federal Grant Requirements

In our examination of the General Purpose Financial Statements, we included tests of a representative number of grant transactions and claims for advances or reimbursements in order to determine compliance with material requirements of grant agreements.

We noted no material compliance exceptions during the performance of the tests. Although the remainder of our examination was not directed primarily toward obtaining knowledge of noncompliance, nothing came to our attention that would lead us to believe that federal reports and claims that we did not test or review were not accurate, complete, or in compliance with the terms and conditions of grant agreements and applicable federal regulations.

WEAKNESSES IN INTERNAL CONTROLS OF STATE AGENCIES

As part of our examination of the General Purpose Financial Statements of the State of California for the year ended June 30, 1982, we studied and evaluated the State's system of internal accounting controls as required by generally accepted auditing standards, by the standards for financial and compliance audits of the Comptroller General of the United States, and by the Office of Management and Budget's Circular A-102, Attachment P.

The purpose of our study of the system of internal accounting controls was to determine the audit procedures and the extent of testing required to express an opinion on the General Purpose Financial Statements of the State. In conducting our audit, we visited 69 of the State's more than 250 agencies; in dollar volume, these 69 agencies process approximately 80 percent of the transactions of the State as a whole.

The function of internal accounting controls is to provide reasonable assurance that the State's assets are safeguarded against loss, that transactions are executed in accordance with management's authorization, and that transactions are recorded properly. The authority for establishing the system of internal accounting controls rests with the Department of Finance and with individual state agencies, while the responsibility for implementing and maintaining the system rests with the management of the state agencies. Some degree of control is also exercised by the State Controller, the State Board of Control, the Department of General Services, and the State Personnel Board. The State's system of internal controls thus consists of a multitude of individual systems that operate within the framework of the State Administrative Manual, the State Board of Control rules, and the procedure manuals of individual agencies.

Summary of Findings

The State of California loses millions of dollars annually in foregone interest, bad debts, and lost assets because of weaknesses in the internal control systems intended to safeguard the State's assets. While the opportunity to recover past losses is limited, many losses could be prevented in future years through tighter controls at executive agencies. The Office of the Auditor General has made specific recommendations to various executive agencies to help them improve existing controls. During our audit of the State's

financial statements for fiscal year 1981-82, we found that 43 of the 69 agencies we tested had at least one weakness in internal controls.

Twenty-seven agencies had weaknesses in internal control over revenue activities. Sixteen of these agencies had weaknesses in collecting money due to the State. Some agencies did not bill for goods or services provided, did not bill promptly for goods or services, or did not follow up on delinquent accounts. As a result, some of the State's potential revenues are now uncollectible. Other weaknesses in revenue activities relate to the depositing and classifying of collections. Because several agencies did not deposit collections within the time limits established in the State Administrative Manual, the State was not able to use the collected monies immediately to pay for expenditures or to invest in interest-producing accounts. Finally, we noted a lack of separation of duties among those employees charged with handling cash. For example, at several agencies, the same employees who collected money also maintained the accounting records. The lack of separation of duties increases the risk that an employee could divert collections to improper uses. Such a misuse of funds actually happened at several campuses of the California State University. For example, since 1980 at the Sacramento campus, more than $100,000 of collections was allegedly diverted to the personal use of an employee.

Thirty-four agencies had weaknesses in internal controls over expenditures. Eighteen of the agencies that we visited had weaknesses in control over the revolving funds from which the agencies make payments directly to vendors and to employees. The lack of control resulted in improper expenditures and in agencies' making interest-free loans and advances that were never repaid to the agencies. Agencies also exhibited weaknesses in the separation of duties related to disbursements. For example, some employees have access to the blank check stock and also maintain related accounting records for cash disbursements and accounts payable. While we did not find any instances of misconduct in this area, the lack of separation of duties related to disbursements increases the risk that employees could use state funds for personal gain.

Moreover, the State of California exercises poor control over billions of dollars in such fixed assets as machinery, office equipment, and computers. State agencies cannot identify at present all assets that they have or should have under their control. For this reason, the State Controller could not

report on general fixed assets in the State's financial statements. Further, 17 of the 69 agencies that we evaluated either did not prepare the required year-end reports in a timely manner or did not submit complete financial reports to the State Controller.

We also noted that in maintaining its accounting records, the State does not fully comply with generally accepted accounting principles, which are recognized throughout the nation. As a consequence, we had to make extensive adjustments to convert the State's financial records to conform with generally accepted accounting principles so that they would be acceptable to the investment community. The main problem with the State's current method of maintaining accounting records is that it significantly understates liabilities. As of June 30, 1982, this understatement equalled about $700 million.

Finally, in return for providing federal grants, the federal government requires the State to adhere to certain regulations in disbursing the grant funds. The compliance requirements typically address recipient eligibility, reimbursable costs, program monitoring, and reporting. Four of the five agencies we tested for compliance did not fully comply with all provisions of the federal requirements, and 8 of the 14 largest grants that we audited were not administered in full compliance with all grant requirements. While none of the conditions of noncompliance are significant enough to place the State in jeopardy of losing continued funding, they should nonetheless be corrected. The federal government could require reimbursement of all costs that the State expended while not fully complying with all grant requirements.

We issued letters to the management of the 43 agencies in which we found weaknesses in internal control. The table on the following pages shows the weaknesses at the agencies to which we issued management letters.

DISTRIBUTION OF WEAKNESSES IN INTERNAL CONTROLS BY STATE AGENCY
MANAGEMENT LETTERS ISSUED FOR FISCAL YEAR ENDED JUNE 30, 1982

	Weaknesses In Revenue Activities				Weaknesses In Expenditure Activities				Weaknesses In Reporting Activities
	Inadequate Separation of Duties Over Revenue	Inadequate Procedures for Billing and Collecting Receivables	Inadequate Procedures for Identifying and Depositing Collections	Weaknesses In Revenue Recognition Procedures	Inadequate Separation of Duties Over Disbursements	Listings of Authorized Signatures Are Not Kept Current	Inadequate Control Over Revolving Fund	Inadequate Reconciliation of Bank Accounts	Inadequate Preparation of Financial Statements
Alcohol and Drug Programs, Department of		X					X		X
Alcoholic Beverage Control, Department of					X				X
California Community Colleges, Board of Governors			X		X				
California Conservation Corps					X		X		X
California Highway Patrol, Department of							X	X	X
California Horseracing Board				X					
California State University									
Fresno	X				X		X		
Long Beach		X					X		
Los Angeles		X			X		X		
Northridge					X				
Pomona					X		X		
Sacramento				X	X				
San Diego					X				
San Francisco		X			X		X		
San Jose					X				
California Youth Authority									
Northern California Youth Center							X		
Youth Training School							X		
Corrections, Department of									
Administration					X				
California Institution for Men							X		
California Medical Facility							X		
California State Prison, San Quentin							X		
Correctional Training Facility							X		
Parole and Community Services					X			X	

	Weaknesses In Revenue Activities				Weaknesses In Expenditure Activities				Weaknesses In Reporting Activities
	Inadequate Separation of Duties Over Revenue	Inadequate Procedures for Billing and Collecting Receivables	Inadequate Procedures for Identifying and Depositing Collections	Weaknesses In Revenue Recognition Procedures	Inadequate Separation of Duties Over Disbursements	Listings of Authorized Signatures Are Not Kept Current	Inadequate Control Over Revolving Fund	Inadequate Reconciliation of Bank Accounts	Inadequate Preparation of Financial Statements
Criminal Justice Planning, Department of	X								X
Education, State Department of		X	X						X
Employment Development Department		X	X	X	X				X
Equalization, Board of		X		X					
Forestry, Department of		X			X				
Franchise Tax Board		X		X					X
General Services, Department of		X							X
Health Services, Department of		X	X		X	X			X
Housing & Community Development, Department of			X				X	X	X
Justice, Department of		X			X		X		X
Mental Health, Department of									X
Motor Vehicles, Department of			X	X	X		X		X
Parks and Recreation, Department of		X		X			X		
Social Services, Department of		X			X			X	
Stephen I. Teale Data Center	X				X				
State Controller, Office of		X				X			X
Transportation, Department of		X	X	X				X	X
Veterans Affairs, Department of				X					
Water Resources Control Board, State	X				X				X
Water Resources, Department of	X	—	—	—	—	—	—	—	—
Total	5	16	7	9	21	2	18	5	17

Note: Weaknesses noted may have multiple occurrences within each agency. However, the weakness is noted only once.

STATEMENT OF FEDERAL LAND PAYMENTS, OCTOBER 1, 1980 THROUGH SEPTEMBER 30, 1981

To comply with Public Law 94-565, as amended (Title 31 United States Code, Sections 1601 through 1607), the Governor or his delegate must submit to the Secretary of the Interior a statement of amounts received by the State and transferred to each unit of local government within the State under certain revenue sharing laws.

During the period from October 1, 1980, through September 30, 1981, the State of California received $61.5 million under the revenue sharing laws referred to above; of this total, the State transferred $19.9 million to qualified units of local government. Of the remaining $41.6 million, the State transferred $39 million to school districts or county school service funds, and retained $2.6 million. State statutes contain provisions for apportioning and disbursing these monies; the State Controller administers these provisions.

We examined the State of California's Statement of Federal Land Payments covering the period from October 1, 1980, through September 30, 1981. The Statement of Federal Land Payments was prepared on the basis of cash disbursements made by the State of California and received by qualified local governmental subdivisions of the State under Title 31 United States Code, Section 1601, et seq.

Our opinion stated that the Statement of Federal Land Payments for the period from October 1, 1980, through September 30, 1981, presents fairly the payments made by the State of California and received by qualified local governmental subdivisions under Title 31 United States Code, Section 1601, et seq.

ACCOUNTING RECORDS AT ECONOMIC AND SOCIAL OPPORTUNITIES, INC.

Summary of Findings

We reviewed the accounting records at Economic and Social Opportunities, Inc. (ESO), a nonprofit corporation that provides services to low-income and disadvantaged persons in Santa Clara County. The objective of the review was to determine whether ESO complied with federal and state accounting, reporting, and auditing requirements.

Because of inadequate management, ESO has not complied with the terms of many of its grants and contracts. Consequently, ESO could lose funding for some of its current or future programs. Because of the inadequacy and unreliability of ESO's accounting records, a public accounting firm was unable to conduct an audit of ESO. Furthermore, ESO has not submitted required audit reports to the Office of Economic Opportunity, and ESO owes the Office of Child Development $81,768 for overpayments in the Family Child Care Home Program.

Recommendations

Economic and Social Opportunities, Inc., should improve its accounting systems to ensure compliance with federal and state accounting, reporting, and auditing requirements. ESO should contract with an independent accounting firm to construct a consolidated balance sheet at June 30, 1982. ESO should also retain a bookkeeping service to update the general ledger and provide compilation reports on a continuing basis, and ESO should hire an independent CPA to conduct a consolidated audit as of June 30, 1983. In addition, ESO should hire independent auditors to conduct all overdue audits, and it should submit all delinquent audit reports to the applicable state agencies. Finally, ESO should pay the amounts due the State of California.

COLLECTION ACTIVITIES AT STATE AGENCIES

Summary of Findings

During our examination of the financial statements of the General Fund for the year ending June 30, 1981, we noted weaknesses in internal controls among the agencies that we audited. We reported our findings and made recommendations in management letters issued to the individual agencies, and we summarized our findings and included copies of the management letters in our report to the Department of Finance (Management Letter 449S, December 30, 1981).

One of the more common weaknesses we found among the state agencies we audited concerns inadequate procedures for collecting money that is due the State. Because of these inadequate procedures, the State may be prevented from making the most efficient use of its resources.

One way of comprehending the importance of following proper procedures for cash collection is to compare the increase in tax revenues over the past five years to the corresponding increase in receivables and uncollectibles. Revenues from taxes, which represent almost 90 percent of the State's General Fund revenues, increased by approximately $6.7 billion (68 percent) from 1976-77 to 1980-81. At the same time, receivables for these taxes increased by approximately $400 million (122 percent). During this same period, the estimated amount of these receivables that will not be collected within one year increased by approximately $250 million (98 percent).

Two bills enacted in 1982 may have an effect on the State's efforts to collect taxes that are owed. Assembly Bill 6, approved by the Governor on January 18, 1982, affects the timing of payment to the State of amounts withheld by employers for personal income taxes and other taxes governed by the Unemployment Insurance Code. Assembly Bill 8, approved by the Governor on February 17, 1982, raises the interest rate that is charged on deficiencies or other delinquent tax payments. This bill also affects the timing of payment to the State of certain sales and use taxes.

ACCOUNTING METHODS FOR THE HOSPITAL BUILDING ACCOUNT

Summary of Findings

The Office of Statewide Health Planning and Development (OSHPD) has not developed and implemented an adequate accounting system to account properly for revenues and expenditures of the Hospital Building Account (HBA). The OSHPD is not identifying and reporting all accounts receivable or accounts payable for the HBA. As a result of this inadequate recordkeeping, the HBA fund balance was understated by $408,594 as of June 30, 1981. This distorted record may in turn affect program planning.

Further, we found that it is not possible to determine if the amounts charged by OSHPD to administer the Seismic Safety Act are reasonable. The OSHPD has not yet developed a time reporting system as recommended in a previous management letter (Number 508, October 15, 1980) issued by the Auditor General to the OSHPD. Further, the OSHPD has not developed an overhead cost rate to determine the cost of those administration functions that should be charged to the Seismic Safety Act account.

Recommendations

The Office of Statewide Health Planning and Development should develop an adequate accounting system for the Hospital Building Account. Specifically, the OSHPD should develop a revenue report that identifies the application fee received and the amount due for each individual project. For the purpose of the year-end financial statement, the unpaid application fees should be identified and reported as accounts receivable.

The OSHPD should also develop and implement a time reporting system for the administration of the Seismic Safety Act; and develop an administrative overhead rate based on the actual costs incurred in administering the Seismic Safety Act.

FINANCIAL AUDIT REPORT
CALIFORNIA STUDENT AID COMMISSION STATE GUARANTEED STUDENT LOAN PROGRAM YEAR ENDED JUNE 30, 1981

The California Student Aid Commission (commission) requested this audit to meet its obligation to provide audited financial statements to lenders participating in the loan program. Chapter 1201, Statutes of 1977, established the State Guaranteed Student Loan Program and authorized the California Student Aid Commission to serve as a guarantee agency for student loans. This program carries out the provisions of the Federal Guaranteed Student Loan Program instituted within the Federal Higher Education Act of 1965 as amended (Education Code, Section 69760). The commission is responsible for guaranteeing federally reinsured loans that are issued to eligible students.

The commission has contracted with United Student Aid Funds, Inc., a nonprofit corporation, for administrative support services. These services include processing and approving all student loan applications, managing guaranteed loans, processing claims from lenders, and preparing reports required by the United States Office of Education. The State Guaranteed Student Loan Program is supported primarily by insurance premiums paid by student borrowers, federal funds, and investment earnings.

We examined the balance sheet of the California Student Aid Commission's State Guaranteed Student Loan Program as of June 30, 1981, and the related statement of revenues, expenditures, and changes in fund balance for the year then ended.

Our opinion stated that the financial statements referred to above present fairly the financial position of the California Student Aid Commission's State Guaranteed Student Loan Program at June 30, 1981, and the results of operations and changes in fund balance for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

FINANCIAL AUDIT REPORT
CALIFORNIA STUDENT AID COMMISSION STATE GUARANTEED STUDENT LOAN PROGRAM YEAR ENDED JUNE 30, 1982

We have examined the balance sheets of the California Student Aid Commission's (commission) State Guaranteed Student Loan Program as of June 30, 1981, and 1982, and the related statements of revenues, expenditures, and changes in fund balance for the years then ended. In our opinion, the financial statements referred to above present fairly the financial position of the California Student Aid Commission's State Guaranteed Student Loan Program at June 30, 1981, and 1982, and the results of operations and changes in fund balance for the years then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding years.

We also reviewed the accounting procedures of the commission and its related system of internal accounting control. As part of our review, we issued a management letter to the commission suggesting action that it should take to assure that it receives the funds it is entitled to. Our letter also recommended adjusting entries necessary to achieve compliance with generally accepted accounting principles. The commission is taking action to assure that it receives the funds it is entitled to, and the commission concurs with the adjusting entries.

INVESTIGATIVE AUDITS

Since January 1980, when the Reporting of Improper Governmental Activities Act went into effect, over 6,000 state employees and other people interested in reporting wrongdoing in state government have contacted the Investigative Audit Unit. While many of these contacts did not result in the filing of a complaint, 914 complaints have been filed; 180 of these were filed during the 18 months covered by this summary. On the following pages, we discuss these complaints and provide examples of some of our investigations. We also summarize our report on revenue reporting practices of food and beverage concessionaires at state-supported fairs.

The Investigative Audit Unit receives most allegations of improper governmental activity over the Auditor General's Hotline, which is a toll-free telephone line available throughout the State. (The toll-free number is 800-952-5665.) Some complaints are received by mail and some through personal visits by complainants. Table 1 on the following page shows how the Auditor General received the 180 complaints filed from January 1, 1982, to June 30, 1983.

TABLE 1

RECEIPT OF COMPLAINTS FILED
JANUARY 1, 1982 TO JUNE 30, 1983

Method of Receipt	Number	Percent
Auditor General's Hotline	141	78%
Mail	27	15%
Personal Visits	12	7%
Total	180	100%

Each complaint filed with the Investigative Audit Unit results in a preliminary investigation to determine if the reported impropriety falls within the Auditor General's jurisdiction and whether there is sufficient evidence of wrongdoing to warrant a formal investigation. If the preliminary investigation reveals proper jurisdiction and sufficient evidence, the Auditor General initiates a formal investigation of the complaint. Table 2 on the following page shows the disposition of the 180 complaints that were filed with the Investigative Audit Unit.

TABLE 2

DISPOSITION OF COMPLAINTS
JANUARY 1, 1982 TO JUNE 30, 1983

	Number	Percent
Cases closed after preliminary investigation	96	54%
Cases closed after formal investigation	44	24%
Investigations in progress	40	22%
Total	180	100%

Our investigations substantiated the occurrence of an improper governmental activity in 31 of the 140 cases that were closed.

Allegations of improper governmental activity are grouped into four major categories: mismanagement, improper personnel practices, abuse of state resources, and misuse of state vehicles. Most of the allegations concerned improper personnel practices and abuse of state resources. In both categories, the Investigative Audit Unit substantiated over 20 percent of the allegations that it investigated. Table 3 on the following page shows the types of allegations received since January 1, 1982, and the number that have been substantiated.

TABLE 3

TYPES OF ALLEGATIONS
RECEIVED AND INVESTIGATED
JANUARY 1, 1982 TO JUNE 30, 1983

Type	Allegations Received	Investigations Closed				Investigations In Progress
		Total	Allegations Unsubstantiated	Allegations Substantiated	Percent Allegations Substantiated	
MISMANAGEMENT						
Poor Administrative Decisions	17	17	17	0	0	0
Wasteful Purchases	1	0	0	0	0	1
Improper Contracting Procedures	9	7	5	2	29%	2
Subtotal	27	24	22	2	8%	3
IMPROPER PERSONNEL PRACTICES						
Time & Attendance Abuses	33	25	18	7	28%	8
Failure to Follow Personnel Rules	16	15	13	2	13%	1
Subtotal	49	40	31	9	22%	9
ABUSE OF STATE RESOURCES						
False Travel Claims	5	4	3	1	25%	1
Waste of State Funds	10	9	8	1	11%	1
Misuse of Employees or Property	41	30	20	10	33%	11
Miscellaneous	18	15	14	1	7%	3
Subtotal	74	58	45	13	22%	16
MISUSE OF STATE VEHICLES						
Used for Improper Purposes	30	18	11	7	39%	12
TOTAL	180	140	109	31	22%	40

In the following sections, we describe each of the four types of improper governmental activity and provide examples of some of the complaints that we investigated and substantiated. Each case also shows the action taken by the responsible state agency.

Mismanagement

State agencies and employees sometimes fail to meet their responsibilities to manage state programs in the most efficient and effective manner. They may initiate wasteful purchases or fail to follow proper contracting or bid procedures. In other instances, state employees may make poor administrative decisions. These kinds of practices typically result in a misuse or waste of state funds or a violation of administrative rules or regulations.

Case A

Two state agencies that awarded similar contracts to the same contractor failed to monitor the contracts adequately. Both contracts were originally granted to provide family planning education to teenagers in the Watts section of Los Angeles. The inadequate monitoring contributed to the contractor's failure to meet the objectives of the grant and allowed the contractor to overcharge one agency for expenditures totaling $15,350. Also, because the contractor did not maintain adequate records, we were unable to audit an additional $28,018 in expenditures charged to both agencies.

Both agencies have implemented new monitoring procedures. One agency initiated action to recover the overcharges of $15,350. In addition, both agencies have begun collecting the documentation necessary to determine what portion of the $28,018 in expenditures should be recovered.

Case B

A state agency competitively bid a contract to evaluate a state program but did not award the contract to the lowest bidder. In rating each of the proposals, the agency considered each bidder's programmatic concept, experience, fiscal capability, and cost of proposal. Vendor A submitted the lowest cost proposal, and the evaluation committee gave it the highest rating. Management of the agency, however, rejected Vendor A in favor of Vendor B, who had the second lowest bid and whose proposal received the third highest ranking. Vendor B's bid of $50,711 was $15,491 higher than Vendor A's. The agency justified awarding the contract to Vendor B by saying that Vendor B was better qualified than Vendor A. However, the facts supporting the agency's decision seem inaccurate, and the agency may have incurred unnecessary costs.

In the future, the agency will provide adequate justification for the awarding of each contract. In addition, the agency has implemented measures to comply with all contract review requirements specified in the State Administrative Manual.

Case C

A state agency entered into a contract with a contractor to complete work on a $1.3 million project by February 1, 1982, but the completion date was extended until April 15, 1982. By January 1982, an agency employee and the contractor agreed that most of the work was done but that the final work and reports could not be completed until June 1982. The Governor's Executive Order B97-82, dated March 11, 1982, placed a freeze on personal services contracts and prevented contract extensions. Because the employee and his supervisor were not able to get an exemption from the Executive Order, the employee asked the contractor to charge in advance for the work not yet performed, and he approved payment of the invoices. The contractor delivered the final product to the agency in June 1982.

The agency confirmed that the employee and his supervisor improperly approved advance payment for labor costs to complete the contract. Both employees received a letter of reprimand and counseling to ensure that such a violation of agency contract procedures will not reoccur.

Improper Personnel Practices

State agencies and state employees sometimes fail to meet their responsibilities as employer and employee. An employing agency may fail to follow the rules and regulations governing the hiring, promoting, and dismissing of employees. An employee, on the other hand, may not work a full eight-hour day but still receive full pay, or an employee may conduct personal business while on state time. Practices such as these typically result in a misuse or waste of state resources or in a violation of fair employment practices.

Case D

At the direction of an agency official, an agency employee was sent to a conference at state expense primarily to perform unofficial babysitting duties. The conference was a training session for agency staff and was held on a Friday, Saturday, and Sunday. On Friday, the employee performed some orientation duties but devoted the majority of her normal working hours to babysitting the children of agency staff. The employee continued to babysit throughout the Saturday and Sunday training sessions. The employee received no overtime pay or compensating time off for these weekend duties. The agency staff members gave the employee extra compensation of $100 from their personal funds, and the employee received $265 in state travel and per diem allowances for the entire conference. The functions that the employee performed led an agency investigator to conclude that the employee spent insufficient hours in performing official duties to justify her attending the conference at state expense.

As a result of the investigation, the agency official who directed the employee to attend the conference received a written reprimand for inappropriate behavior.

Case E

An employee of a state agency that regulates liquor distribution spent an undetermined number of unauthorized hours away from his office. For over six years, the employee frequently came to work around 9:00 a.m. and left at about 4:00 p.m. He attempted to justify the shorter working hours by stating that he often ate lunch in the office. He also claimed that he frequently made routine checks of licensed premises in his district after his normal working hours and on weekends. However, the employee kept no records to support his claim of overtime hours worked.

The employee received a letter of admonishment for demonstrating poor judgment in adjusting his hours of work without telling his supervisor. In addition, he was transferred to the agency's main headquarters for closer supervision.

Abuse of State Resources

State agencies and employees sometimes misuse or misappropriate state resources. Such misuse can occur through the filing of false travel claims, the use of state personnel for nongovernmental purposes, or the use of state telephones and postage for personal purposes. Practices of this type typically result in a waste of state funds and sometimes border on fraud or embezzlement.

Case F

Contrary to state law, four employees of a state agency used state time and resources to solicit letters in support of the agency's budget. The employees were supplied with special business cards and directed by an agency official to pose as volunteers rather than as agency employees. As a result, the

State incurred expenses for salary and travel totaling $3,523.41 for activities that were improper. Furthermore, the employees worked outside of their job classifications while assigned to this special project.

The agency official received a written reprimand for inappropriate behavior. In addition, the official's position is being reclassified with less responsibility, and the official was denied approximately 27 hours of accumulated compensating time off.

Case G

An agency official had the agency's senior word processing technician train the official's secretary in the operation of the word processor so the secretary could enter and merge an unofficial letter and a mailing list of 1,500 names on the agency's word processing system. Merging directs the system to print multiple copies of the letter, each copy addressed to a person on the mailing list. The letter solicited support for a candidate who was running for a state office. Later, the official authorized the technician to have the agency's word processing personnel enter the mailing list into the system. Agency records show that five word processing personnel spent 56.5 hours of state time entering the list into the system. Then, the official had the technician show his daughter and a temporary employee how to use the agency's word processing system to merge a letter with the mailing list. However, they had problems with the system and the project was never completed.

The official admits that he composed the letter and had the mailing list entered into the agency's word processing system. The agency will take appropriate action once all pending investigations into the official's conduct are completed.

Case H

An official of a state garage used his official position for personal gain by circumventing state auction procedures to purchase state vehicles. In addition, the official wasted state time and resources by making numerous personal long-distance phone calls. In three instances from November 1981 to January 1982, the official took possession of three vehicles purchased for him at state auctions. These actions constituted a conflict of interest because the official used his position and knowledge to circumvent state auction procedures. Agency investigators also found numerous instances in which garage records indicated that automobile parts had

been installed on state vehicles but were missing when the investigators inspected the vehicles. In some instances, the missing parts would have fit the vehicles that the official had purchased through the state auction. In addition, an employee of the state garage conducted emission control tests on the vehicles that the official had purchased and certified that the vehicles met the state pollution control standards. Finally, the official made numerous long-distance personal telephone calls using state telephones between November 1981 and February 1982, accumulating nearly 14 hours of personal long-distance phone calls that cost the State $137.30. His salary for the 14 hours amounted to an additional $167.60.

The director of the agency dismissed the official from state service on August 5, 1982. The employee appealed this action; during the appeal process, the employee was allowed to resign. The agency will recover $304.90 from the official in repayment for salary and phone expenses incurred because of his unauthorized telephone calls. The agency has strengthened procedures for the sale of state vehicles.

Misuse of State Vehicles

State employees are sometimes authorized to use state automobiles and trucks in the conduct of their official duties. Sometimes employees abuse this privilege, however, by using the vehicles for personal purposes or for unauthorized trips. In other instances, state employees may fail to observe all traffic laws. Practices such as these may result in a waste of state funds and sometimes in a threat to the safety of the state employee and the general public.

Case I

An official of a state university misused a state vehicle by removing the state identification decals from the vehicle and by installing a trailer hitch. He also drove the vehicle to another state university for his daughter's graduation. In returning, the official transported his daughter's personal

belongings in a trailer that he had attached to the vehicle. The official claims that he went to the graduation services at two state universities primarily to observe and to learn how to improve the graduation ceremonies at his university. However, an investigator concluded that this was not the case. In addition, the investigator found that the official had used the vehicle to conduct personal business in the community in which he lives, and he had also used the vehicle at least twice to tow his private sailboat to a nearby lake. The vehicle was inappropriately driven at least 500 miles.

The official has replaced the identification decals on the state vehicle and has had the trailer hitch removed. He has also reimbursed the university's travel fund $240.50 to cover the personal trips he took to the other state universities and to the lake. A copy of the report of investigation has been placed in the official's personnel file.

Case J

An employee of a state agency misused state vehicles and did not properly process monthly vehicle logs. The employee had the keys to all 14 vehicles that were assigned to his section. The employee admitted that he used various state vehicles to commute between his home and the office, approximately two or three days each week. In reviewing the monthly vehicle logs of the employee's section, officials found that 30 logs had not been submitted for 1982 and were missing. The employee found 3 of the missing logs in his desk; the remaining 27 logs are still missing. In addition, officials discovered that over a period of three consecutive months, the employee used one vehicle for personal business and did not record the mileage for those trips in the vehicle's daily log. Officials calculated that the employee drove state vehicles 3,200 miles on personal business.

The employee has received a formal reprimand, a reduction in his authority, and a bill for $640. In addition, the agency is reviewing its policies on vehicle usage.

REVENUE REPORTING PRACTICES OF FOOD AND BEVERAGE CONCESSIONAIRES CONTRACTING WITH STATE-SUPPORTED FAIRS

Summary of Findings

Each year, 80 district, county, and citrus fairs take place at various locations throughout California. In fiscal year 1981-82, the Department of Food and Agriculture allocated over $12 million in state funds for support of these fairs. Revenue generated from concession contracts constitutes a significant source of income for the fairs. In 1981, state-supported fairs earned revenue of nearly $9.9 million from concession contracts. Approximately $4.4 million of this total came from carnival contracts; nearly $5.5 million came from other concession contracts, primarily food and beverage concessions.

Of the 19 largest state-supported fairs, 13 fairs charge food and beverage concessionaires a percentage of their gross receipts for the privilege of operating concession stands during the fair. The percentage charged ranges from 15 percent to 25 percent of gross receipts. Nine of these 13 fairs rely on the honor system rather than established control procedures to ensure the accuracy of reported receipts.

We reviewed the revenue reporting practices of various food and beverage concessionaires contracting with state-supported fairs. We interviewed fair managers and other personnel at 19 of the largest state-supported fairs, reviewed the contract terms and revenue reporting practices for concession operations at these fairs, and examined selected financial data relating to the fairs' operations. We visited two of these fairs, the Ventura County Fair and the Big Fresno Fair, and used both overt and covert techniques to estimate revenues earned by certain concessionaires.

The Ventura County Fair does not require concessionaires to use cash registers and does not use any formal control procedures to audit gross receipts reported by the concessionaires. Concessionaires at the fair submit a daily report to the fair's concessions office showing their gross receipts. The fair generally relies on the honesty of each concessionaire to report the actual revenue earned. Eight other state-supported fairs that require concessionaires to pay a percentage of their gross receipts use a similar reporting system.

We visited the Ventura County Fair on October 4 and 5, 1982, to estimate revenue earned at four concession stands. An undercover team of auditors observed and recorded sales transactions from 12:30 p.m. to 10:30 p.m. each day. We compared the concessionaires' reported revenue to the estimates we computed from our observations. The gross receipts reported by two of the four concessionaires were significantly lower than our estimates. One concessionaire underreported gross receipts by approximately 48 percent; the other concessionaire underreported gross receipts by approximately 37 percent.

In contrast to the Ventura County Fair, the Big Fresno Fair has established formal control procedures to help ensure the accuracy of each concessionaire's gross receipts. The Big Fresno Fair requires that all food and beverage concessionaires use cash registers and that these registers be in full view of the public. The fair uses an undercover employee to observe concession activities to ensure that all sales are recorded. Each day, fair personnel record the readings of each concessionaire's cash register, generally between 9:00 p.m. and 9:30 p.m. The fair uses these register readings to determine the gross revenue earned by each concessionaire and the resulting payment due the fair. The fair also requires that the concessionaires submit their daily cash register tapes to the fair's concessions office, which retains these tapes until the end of the fair. Only 4 of the 13 largest state-supported fairs that require concessionaires to pay the fair a percentage of their gross receipts use such procedures to control the reporting of revenues.

An undercover team of auditors observed three concession stands at the Big Fresno Fair from 10:00 a.m. to 10:00 p.m. on October 7 and 8, 1982. We found no significant difference between the gross receipts reported by the concessionaires and the estimates we computed from our observation.

We concluded that, when fairs lack established control procedures to verify gross receipts reported by concessionaires, there is an increased possibility that receipts will be underreported. As a consequence, fees concessionaires pay to the fairs will be less than the fairs are entitled to.

Recommendations

The Department of Food and Agriculture should ensure that all state-supported fairs charging concessionaires a percentage of gross receipts have established control procedures that allow the fairs to verify receipts reported by concessionaires. Such procedures could include a system of controls similar to those at the Big Fresno Fair or they could include a judgmental or random observation of concession operations using methods similar to those that we used in this study. To ensure that concessionaires recognize the risks associated with underreporting revenues, fairs should impose sanctions against concessionaires that underreport revenues.

PERFORMANCE AUDITS

Performance audits assist the Legislature in determining whether state agencies, and other agencies receiving state funds, are conducting programs economically, efficiently, and effectively. From January 1, 1982, through June 30, 1983, the Performance Audit Division issued 68 reports concerning programs conducted by 42 different agencies.

Among the major audits we conducted were the following: planning, programming, and developing of highway construction projects by the Department of Transportation, rate review procedures of the Public Utilities Commission, adoption services provided by the Department of Social Services, management of property owned by the University of California, effectiveness of job placement activities of the Employment Development Department, and disciplinary procedures of the Board of Medical Quality Assurance. Eleven of our audits concerned programs administered by the Department of Social Services, seven audits pertained to programs conducted by the Department of Health Services, and four pertained to programs managed by the Department of Education. We continued our reports to the Legislature on the administration of the Medi-Cal program and the process for selecting the next

Medi-Cal fiscal intermediary. On the following pages, we present summaries of the reports issued by the Performance Audit Division.

THE DEPARTMENT OF AGING HAS IMPROVED ITS ADMINISTRATION OF PROGRAMS FOR THE ELDERLY

Summary of Findings

We reviewed the progress of the Department of Aging (department) in implementing the recommendations contained in our April 1981 report entitled, "Improvements Warranted in the California Department of Aging's Administration of Programs for the Elderly" (P-014.2). We also reviewed the department's allocation of funds to local agencies under the Federal Older Americans Act of 1965, as amended. Finally, we evaluated the department's efforts to recruit and employ citizens 60 years of age and older.

The department has made significant improvements in its procedures to identify and redirect unused federal funds. For example, it has revised procedures for processing reports submitted by local agencies at the end of their contracts, and it has established new procedures to improve accounting records. However, the department needs to ensure that entries made to adjust the accounting records are sufficiently detailed and are properly reviewed and approved. The department has also improved its procedures to assist local agencies and to effectively control these agencies' operations. Furthermore, in fiscal year 1980-81, the department developed a new formula for allocating funds to local agencies under the Older Americans Act of 1965, as amended. However, the department did not precisely adhere to this formula in determining the grants for all local agencies for fiscal year 1982-83.

The department has also developed an employment policy to ensure that workers aged 60 years and over receive preference in hiring. Although the department has not followed all aspects of this employment program, it has coordinated some of its efforts with the State Personnel Board to focus on recruiting older workers. In spite of these efforts, however, the department is limited in what it can accomplish in hiring older workers because only a limited number of job vacancies occur each year.

AGRICULTURAL LABOR RELATIONS BOARD: EXPENDITURE OF FUNDS IN THE GROWERS EXCHANGE CASE AND RELATED CASES

Summary of Findings

We reviewed the direct cost of the involvement of the Agricultural Labor Relations Board (ALRB) in the Holtville Farms/Growers Exchange case, including the actions taken in pursuing an injunction against Holtville Farms. We estimate that the cost of ALRB involvement was approximately $94,160. We also reviewed the cost of investigating charges alleging that work formerly performed by members of the United Farm Workers of America (UFW) had been contracted out to other companies. We found that seven charges were filed with the ALRB's Salinas regional office and subsequently transferred to and investigated by the El Centro regional office. We estimate that the ALRB spent at least $1,490 in direct labor and travel costs in investigating these charges. In addition, Growers Exchange filed a charge in the Salinas regional office against the UFW; this charge was also transferred to the El Centro regional office. We estimate that the ALRB spent $11,360 in direct labor and travel costs in investigating and handling these other charges.

We were also asked if the State incurred additional costs as a result of the ALRB's decision to transfer the investigation of seven charges from the Salinas regional office to the El Centro regional office. We believe that if the investigation had remained in the Salinas region, some investigative costs, especially travel costs, would have been higher since most of the work was conducted in the El Centro region.

Finally, we reviewed the ALRB's involvement in the process of negotiating a settlement of the Holtville Farms/Growers Exchange case. We found that some negotiations did take place during the ALRB's hearings on the case. However, the parties were unable to reach a satisfactory settlement. The Growers Exchange attorneys stated that the ALRB's General Counsel agreed to settle unilaterally with Growers Exchange if the collective bargaining was unsuccessful. However, the General Counsel told us that his intention was to get the parties to resolve their differences through collective bargaining and to consider a unilateral settlement only if a private party settlement was not possible.

STATE SCHOOL BUILDING LEASE-PURCHASE PROGRAM

Summary of Findings

Section 17700 et seq. of the Education Code provides for reconstructing, remodeling, or replacing existing school buildings that are inadequate for instruction or that do not meet present structural safety requirements. The State Allocation Board (board) considers applications for lease-purchase projects, apportions school building funds, and establishes regulations, policies, and procedures for administering the program. The Department of General Services administers the program.

The board approves funds for building projects in three phases that correspond to the major steps in the building process. Phase I constitutes an authorization to develop preliminary plans, conduct soil tests, obtain appraisals, and perform other functions necessary to determine the feasibility of a project. Phase II permits the district to proceed with working drawings and specifications and to purchase building sites. Phase III provides the final approval required to award the project and to begin construction. There is an average of from one to three years between the time an initial application is submitted and the date the project is completed.

We reviewed the estimated cost of projects for each project phase as of April 1, 1982, based on those 68 projects that had been fully funded for all three phases. For these fully funded projects, approximately 2 percent of the funds were spent for Phase I and 6 percent for Phase II.

We also examined the intervals between various approval phases for 71 fully funded projects. The average interval between Phase I and Phase II approval was about five months; between Phase II and Phase III, the average interval was about six months. In many instances, school districts are submitting an application for more than one phase of a project within the same year. Consequently, not only would the board potentially consider the estimated $134,066,000 in costs for the current phases of projects but also a portion of the estimated $155,779,000 balance of total project costs.

REVIEW OF CALIFORNIA'S SCHOOL BUILDING LEASE-PURCHASE PROGRAM

Summary of Findings

Section 17700 et seq. of the Education Code provides for reconstructing, remodeling, or replacing existing school buildings that are inadequate for instruction or that do not meet present structural safety requirements. In accordance with Section 17780 of the Education Code, the State Allocation Board (board) determines the amount of funds to be made available to the State School Building Lease-Purchase Fund and to the State School Deferred Maintenance Fund. Our survey indicated that the State Allocation Board's actions and the Office of Local Assistance's procedures are consistent with the authority and guidelines specified by Section 17700 et seq. of the Education Code.

According to officials from the Office of Local Assistance, within the Department of General Services, the board provides sufficient funding to meet the statewide funding requirements of the deferred maintenance program before authorizing funds to the State School Building Lease-Purchase Program. The major difference between the State Allocation Board's project application and approval process and the Public Works Board's process is that the State Allocation Board is authorized to fund school construction projects, whereas the Public Works Board's projects are funded by the Legislature through the state budget process.

Developer fees may be imposed by local governing bodies on real estate developers as a condition of approval for residential development. Officials from the Office of Local Assistance stated that approximately 130 of the nearly 1,050 school districts in California impose some type of developer fee. Of these districts, 46 have applications filed for a construction project under the State School Building Lease-Purchase Program.

The State School Building Lease-Purchase Program offers some incentives for school districts to consider alternatives other than new construction in their construction projects. For example, whenever a building is to be reconstructed rather than replaced or whenever relocatable structures are utilized, a school district is granted a larger allowance for square feet of space. Additionally, the process is designed to identify any unused school sites available in a district and to require that district to maximize the use of existing facilities.

A REVIEW OF THE OPERATIONS OF THE CALIFORNIA STATE UNIVERSITY AND COLLEGES' FOUNDATIONS

Summary of Findings

We reviewed the operations of nine auxiliary organizations "foundations," of the California State University and Colleges (CSUC). Although legally separate from the CSUC, foundations contribute to the educational mission of the university by administering research and special educational projects, organizing fund-raising efforts, and managing gifts, scholarships, and trust funds. Our review focused on the CSUC's recovery of indirect costs incurred in administering grants and contracts as well as the adequacy of policies and procedures governing foundations' operations and expenditures.

The campuses and the foundations within the CSUC incur costs associated with grants and contracts. Yet certain federal regulations and cost-sharing requirements prevent the CSUC from recovering the costs it incurs. And although the CSUC campuses generally incur most of these costs, the foundations retain the reimbursements. In fiscal year 1979-80, cost reimbursements to the nine foundations amounted to $5.2 million, a figure that greatly exceeds the foundations' costs of administering grants and contracts. Moreover, the nine campuses assisted by the foundations received only $41,997 of this amount--a small portion of the actual costs they incurred.

Our review also focused on guidelines governing the use of discretionary funds, which include unrestricted donations and reimbursements of indirect costs. In the absence of explicit guidelines in this area, foundations have spent discretionary funds in a questionable manner. Foundations have financed items unrelated to educational objectives: banquets for faculty, season tickets to professional football games, and office decorations. Additionally, unrestricted donations have not been spent as indicated in fund-raising letters and pamphlets, and some discretionary funds have been spent for goods and services that would be denied state agencies. By making such purchases through the foundations, campuses have avoided the approval processes required for state agencies' expenditures.

Finally, our review showed that CSUC campuses have not established clear procedures for authorizing and documenting expenditures of discretionary funds. At the nine foundations we visited, employees responsible for authorizing discretionary expenditures also receive such funds, and five of the nine foundations have not established procedures for documenting discretionary expenditures. We found that over 25 percent of the discretionary fund expenditures were either improperly authorized or inadequately documented.

Recommendations

To alleviate these problems, the California State University and Colleges should receive the excess indirect costs recovered by the foundations, establish specific guidelines on the proper use of discretionary funds, and ensure that foundations maintain specific procedures for properly authorizing and documenting discretionary expenditures.

INTERCOLLEGIATE ATHLETIC CONDITIONING COURSES PROVIDED BY BUTTE COLLEGE FOR CSU CHICO ATHLETES

Summary of Findings

We reviewed the circumstances surrounding Butte College's offering 38 sections of physical education at the California State University, Chico, during the summer of 1981 and the winter of 1982. We found that officials of Butte College and coaches from California State University (CSU) Chico, provided intercollegiate athletic conditioning programs for CSU Chico athletes. Butte College employed CSU Chico coaches as part-time instructors and scheduled 38 sections of physical education to be held on the CSU Chico campus. When arranging these sections, Butte College did not advertise the courses, as required by the California Administrative Code, and hired two instructors who did not have teaching credentials or certification documents required by the California Education Code. In addition, the coaches did not hold the courses when they traveled with some of the students to intercollegiate competitions. Furthermore, the coaches did not hold the courses for the hours specified in their contracts or the course schedules. As a result, Butte College overpaid the instructors by approximately $5,300, may have miscalculated the students' units of academic credit, and overclaimed state funding by at least $45,000.

Recommendations

To correct the deficiencies noted in this report, the President of Butte College should do the following: ensure that established hiring procedures are consistently followed so that only instructors with valid community college credentials or certification documents teach community college courses; take steps to recover overpayments made to the coaches; adjust the academic records of the students who attended the courses to reflect the proper number of units earned; and ensure that future off-campus courses are monitored so that state funds and academic credits are properly earned.

Additionally, because Butte College overclaimed state funds, the Chancellor of the California Community Colleges should reduce the amount of state aid claimed by Butte College for the 1981-82 academic year to a level consistent with the amount of average daily attendance that was properly earned.

ENFORCEMENT PROCEDURES USED BY THE DEPARTMENT OF CONSUMER AFFAIRS' BUREAU OF COLLECTION AND INVESTIGATIVE SERVICES

Summary of Findings

We reviewed selected enforcement procedures used by the Bureau of Collection and Investigative Services (bureau) to regulate collection and repossession agencies. We reviewed three areas of the bureau's operations: the use of notices of warning and accusations to discipline collection agencies; the use of stipulated agreements between the bureau and collection agencies and repossession agencies in order to avoid legal proceedings; and the use of individuals, known as conservators, to administer the operations of collection agencies.

Our review disclosed that there are no specific requirements that the bureau notify collection agencies of pending disciplinary actions. However, the bureau did provide some form of notice in the cases we reviewed. Furthermore, the bureau substantiated the violations in question before taking disciplinary actions. In addition, since July 1, 1979, the bureau has negotiated stipulated settlements with ten collection agencies and repossession agencies. Of these, six have been concluded and four are pending. Two of the pending cases involve cash payments to the bureau beyond recoupment of bureau audit costs and conservator costs. The Legislative Counsel has determined that a proposed $20,000 payment in one of these cases is illegal and has also determined that monetary fines may not be imposed on a collection agency as a condition of probation.

Since July 1, 1979, the bureau has also been involved in 15 conservatorships, 7 of which are closed. Over half of the closed cases resulted in the restoration of the agency in question. Finally, our review showed that the bureau does not have a procedural manual for administering conservatorships and for determining the reasonableness of conservators' fees. However, a bureau official states that the bureau is developing a manual for conservators and that this manual will incorporate a fee schedule.

ESTABLISHING ELECTRONIC FUNDS TRANSFER FOR PAYROLL AND RETIREMENT PAYMENTS: FEASIBILITY, COST, AND SAVINGS

Summary of Findings

This report responds to Chapter 1317 and Chapter 1270, Statutes of 1982, which require the Auditor General to determine the feasibility of, cost of, and savings from electronic funds transfer (EFT) as it relates to a voluntary program for the direct electronic deposit of employee payroll and retirement payments into financial institutions. EFT would transfer funds electronically to financial institutions by using computers, magnetic tapes, and automated clearing houses.

The State can incorporate EFT into the existing payroll and retirement payment systems. Seventeen other states use EFT to transmit payroll or retirement payments directly to financial institutions. The Social Security Administration and the U.S. Department of the Army also use EFT to make payments to beneficiaries. The State Controller has indicated that EFT is feasible for California, but the State Controller does not want to implement such a system at the present time, primarily because the State may forgo interest income. Furthermore, the State Controller contends that the design and implementation costs for EFT would be greater today than in the future, provided the State Controller is granted approval to replace the existing payroll system.

We estimate that the State would spend $486,000 to develop and implement an EFT system into the existing payment systems. These nonrecurring costs would be primarily for modifying computer programs and enrolling employees and retirees who volunteer to participate in the program.

We further estimate that the State would spend $90,000 each year to operate EFT within the existing payment systems. Most of these expenditures would be for processing fees charged by financial institutions. However, we estimate that by using EFT, the State would save $51,000 each year, thus lowering the annual operating cost to approximately $39,000. The State would achieve these savings by processing and redeeming fewer warrants.

In addition, the State would forgo interest income each year because EFT would require the State to release funds more quickly than the current warrant payment systems. We estimate that the State would forgo $1.4 million in annual interest income by establishing EFT.

Other factors to consider include the following: state employees can currently request that the State Controller deduct portions of their pay for deposit in financial institutions. In addition, approximately 83,000 retirees have their warrants mailed directly to financial institutions. Further, EFT would provide greater safety and convenience to employees and retirees, and it would benefit state agencies by reducing their need to handle warrants.

However, because EFT does not use warrants, it could have an adverse effect on the State's existing internal controls for payroll and result in an increase in the volume of overpayments made to employees. On the other hand, the State could use EFT in systems other than the payroll and retirement disbursement systems. For instance, other states use EFT as a cash management tool for disbursing funds and collecting revenues.

Finally, financial institutions may benefit if the State implements EFT because they would receive payroll and retirement monies more quickly. EFT may also reduce the operating costs of financial institutions. Furthermore, because the fees that the State pays to financial institutions for processing payroll and retirement payments could be greater under EFT than under the present system, implementing EFT could increase the income of financial institutions.

ESTABLISHMENT AND FINANCING OF THE WATER TASK FORCE

Summary of Findings

The Water Task Force (task force) is an advisory committee of the Commission for Economic Development (commission). The commission was established by statutes to provide continuing bipartisan guidance for economic development in California. In carrying out its responsibilities, the commission can appoint advisory committees such as the Water Task Force. These advisory committees are usually established by the Lieutenant Governor, as chairman of the commission, without the vote of the commission members.

On November 27, 1981, the Lieutenant Governor established the Water Task Force and defined the scope of its activities. Members of the Water Task Force include representatives of industry, a state official, and members of the Legislature. The commission does not directly oversee activities of the task force. However, the task force does present progress reports to the commission at its meetings.

The task force studied the impact of Senate Bill 200 (Chapter 632, Statutes of 1980) and Assembly Constitutional Amendment 90 (Resolution Chapter 49, Statutes of 1980) on the proposed peripheral canal. It also assessed alternatives for providing California with an adequate water supply. It presented a report to the commission on its findings on April 15, 1982. The task force has contracted with California Research, a private firm, to receive and account for all of its funds. The chairman of the task force has sole responsibility for approving all expenditures. Section 14999.3 of the Government Code states that the commission's advisory committees are not to be supported with state funds. An official from the Lieutenant Governor's Office stated that as of April 12, 1982, private sources have contributed or have pledged to contribute approximately $21,000 to the California Water Task Force Fund. The task force has incurred expenditures of $14,900. The task force anticipates future expenses of approximately $15,000.

Although the Commission for Economic Development provides no direct funding to the task force, commission staff have provided support services, maintaining a link between the commission and the task force. The commission has requested a legal opinion on whether it should be reimbursed for these services.

REVIEW OF THE REQUEST FOR PROPOSAL PROCESS USED BY THE STATE OFFICE OF ECONOMIC OPPORTUNITY TO DISTRIBUTE FEDERAL COMMUNITY SERVICES BLOCK GRANT FUNDS

Summary of Findings

We reviewed the request for proposal process used by the State Office of Economic Opportunity (OEO) to distribute funds under the Federal Community Services Block Grant (CSBG) program. The objective of the review was to determine whether the actions taken by the OEO in the request for proposal (RFP) process were equitable and prudent and whether they complied with the requirements of the CSBG program.

Inadequate management control limited the OEO's process for distributing funds under the CSBG program. Specifically, the OEO did not advertise the availability of discretionary funds as required; thus, eligible agencies may have been denied an opportunity to bid for the funds. In addition, the RFPs sent to prospective contractors contained errors that were not amended until late in the proposal process, thereby limiting the response time available to the contractors. Furthermore, the OEO did not fully assess alternatives for transmitting changes in the RFPs to agencies. As a result, the OEO spent $62,360 to inform agencies of changes in the RFPs. Had the OEO used an alternative such as Express Mail or Federal Express, the cost would have been approximately $4,000 or $11,600, respectively. Finally, the OEO did not review its mailing list to eliminate duplicate listings of agencies. We could not verify whether any agency was intentionally denied an RFP.

Recommendations

The OEO should adopt the following measures to improve the request for proposal process pertaining to the Community Services Block Grant program: in accordance with Executive Order B83-81, advertise in the California State Contracts Register the availability of CSBG discretionary funds; improve management controls to assure the RFPs are accurate before distributing them to applicants and to assure that applicants receive RFP amendments at least two weeks before the application deadline to allow sufficient response time; assess the cost effectiveness of taking specific actions, identifying assumptions and alternatives, and obtaining cost estimates; and, review the consolidated mailing list to eliminate duplicate listings of agencies.

SCHOOL DISTRICTS NEED TO IMPROVE THEIR ADMINISTRATION OF CONSULTANT CONTRACTS

Summary of Findings

The 1,044 school districts in California's kindergarten through grade twelve public school system spend more than $38 million annually for consultant services. Each of these districts has the authority to contract for consultant services, and each has the responsibility for administering these contracts. Districts contract for a wide range of consultant services, including administrative services, staff development activities, and musical, cultural, or scientific presentations. Although recent legislation (Chapter 1176, Statutes of 1981) strengthens the requirements for administering school districts' consultant contracts, we found at the time of our review that school districts were not following sound contracting procedures.

School districts are deficient in four areas of their administration of consultant contracts. First, before hiring an outside consultant, school districts are not determining if their own employees can provide the needed service. Because of this oversight, districts may unnecessarily hire a consultant for services that their own employees can perform. Second, school districts are relying heavily on noncompetitively bid consultant contracts without adequately justifying their use. This practice may prevent districts from obtaining consultant services at a competitive price and may allow program directors or vendors or both to abuse the contracting system. Third, school districts are not conducting adequate cost analyses of the fees being charged by consultants. As a result, schools may be paying unnecessarily high fees for consultants' services. Finally, the governing boards of school districts are not adequately reviewing and approving consultant contracts before the services are performed. As a result, school districts may be contracting for unnecessary services.

Recommendations

Although the Legislature recently adopted statutory requirements to strengthen school districts' administration of consultant contracts, the Legislature should consider requiring the State Department of Education to develop and disseminate statewide guidelines for administering consultant contracts. At a minimum, the guidelines developed by the department should

include the following: procedures for determining the availability of resources within a school district, the county office of education, and the adjoining school districts and county offices of education; competitive bidding procedures for consultant contracts and procedures for justifying consultant contracts that are not competitively bid; methods for conducting cost analyses of consultant fees; and, procedures for reviewing and approving consultant contracts by governing boards before contracts are executed.

The Legislature should also require the governing boards of school districts to adopt written procedures for administering consultant contracts that are consistent with statewide requirements and guidelines. Further, to assist school districts in assuring adequate competition for consultant contracts, the Legislature should require county offices of education to develop and maintain lists of qualified consultants who are available to provide special services and advice to school districts.

IMPROVEMENTS NEEDED IN THE STATE DEPARTMENT OF EDUCATION'S APPORTIONMENT OF STATE SCHOOL FUNDS

Summary of Findings

We reviewed the State Department of Education's (department) procedures for determining the apportionment to school districts of approximately $5 billion in State School Funds for basic education programs. These programs include those offered to elementary and high school students and adults attending high school. The department has not included adequate controls within its procedures for processing State School Fund apportionments for basic education programs. That is, the department has not involved all appropriate functional units in determining apportionments, nor has it properly organized job functions to provide greater assurance that the process is accurate and reliable.

As a result of these control weaknesses, some school districts have received inaccurate apportionments. In one case, the department overstated the first principal apportionment for fiscal year 1980-81 by $10 million because of a computational error. Although the department found the error and subsequently corrected it in the second principal apportionment, the department has not made procedural changes to prevent similar errors from occurring in the future.

Recommendations

The department should ensure that its legal staff, internal audit staff, and data management services staff actively participate in the apportionment process to provide greater assurance that it is effective and reliable. Also, the department should properly separate the duties of the two key analysts now responsible for calculating apportionments.

Additionally, the department should require the data management services unit to develop and install formal standards for system design, programming, and documentation. Departmental management should see that the unit adheres to these standards. Finally, the department should detail in writing all current computer applications and manual procedures within the apportionment process.

IMPROVEMENTS NEEDED IN ADMINISTERING STATE-FUNDED CHILD CARE PROGRAMS

Summary of Findings

The Office of Child Development (OCD), within the State Department of Education, administers approximately $230 million in child care and development funds. The OCD oversees a variety of programs operated by public and private agencies that offer a full range of services in centers and family child-care homes for children from infancy to age fourteen. Our audit identified a number of weaknesses in the OCD's administration of child care and development programs.

The OCD's management of state funds for child care and development programs exhibits three major deficiencies. First, because the OCD has not considered agencies' previous expenditures, the OCD has not effectively determined the amount of funds that agencies should receive. Consequently, the OCD has contracted with some agencies for more funds than they are capable of earning. The OCD made an estimated $2.3 million in overpayments to agencies in fiscal year 1981-82.

Second, the OCD does not make accurate, timely, and complete determinations of agencies' earnings based on agencies' year-end audit reports. Consequently, the OCD's effectiveness in contracting with agencies is impaired, and delays occur in identifying overpayments and underpayments and in collecting funds owed the State. We identified approximately $307,000 in funds owed the State that the OCD has failed to recover. We also identified 38 agencies that had received approximately $4.3 million in fiscal years 1978-79 and 1979-80 whose audit reports had not been reviewed or processed. Approximately half the funds that the OCD currently administers are not fully audited. Furthermore, the OCD has not reviewed the use of approximately $132.3 million in funds paid to local educational agencies between fiscal years 1978-79 and 1980-81.

Third, the OCD has not adhered to its policy for enforcing repayment agreements with agencies that owe the State funds. The OCD allowed half of the agencies that signed repayment agreements with the OCD to be delinquent in their payments as of March 1982. Moreover, the OCD continued to pay some of these agencies for current services. Although the OCD has begun to address its fiscal management problems, it needs to take additional action.

The OCD's administration of its licensing responsibilities also has three major deficiencies. First, due to transition problems associated with a major reorganization in the OCD in July 1980 and the lack of an adequate management information system, the OCD has not issued licenses to new facilities and has not renewed licenses of existing facilities in a timely manner. Approximately 1,100, or 77 percent, of the child care and development facilities funded by the OCD were unlicensed or had an unknown licensing status as of January 1982. In February 1982, the OCD initiated procedures to eliminate the severe licensing backlog. OCD officials reported that nearly 23 percent of its facilities were still unlicensed as of June 1982.

Second, the OCD has not established a policy for applying sanctions to agencies that fail to conform with state licensing requirements. Consequently, the OCD has not sanctioned agencies that have failed to conform with state law and correct serious licensing violations within a reasonable amount of time. We identified licensing violations that had gone uncorrected for as long as 10 months.

Third, the OCD is not properly processing and investigating complaints against agencies operating state-funded child care and development programs. We found that 74 percent of the complaints received by the OCD were not investigated within 10 days as required by state law.

Further, the present method of funding child care and development programs does not optimize the use of the State's funds. We found that actual attendance in child care and development programs is significantly below enrollment in some programs. Consequently, the State is paying for children who are enrolled in child care and development programs, even though these children are often not in attendance.

Finally, due to the reimbursement standard developed by the OCD, a disparity exists between the reimbursements that the OCD makes to agencies and the amount of child care and development services that agencies actually provide. We found considerable variation between the amount of service an agency provides and the amount of service for which the agency is reimbursed.

Recommendations

When renewing an agency's contract and determining the amount of funding that an agency should receive, the Office of Child Development should consider an agency's demonstrated ability to earn the total amount included in its contract. To improve control over payments made to agencies operating child care and development programs, the OCD should strengthen and consistently apply existing procedures for adjusting payments made to agencies so that an agency's payments closely match its earnings. The OCD should also establish a procedure for periodically verifying an agency's special income from food programs administered by the State Department of Education. The OCD should closely monitor the income and expenditure data submitted by agencies to the OCD in periodic fiscal reports, and it should develop procedures to ensure that agencies submit periodic fiscal reports on time to the OCD. Finally, the OCD should adhere to a consistent policy for reducing and withholding payments to agencies that do not provide required fiscal reports.

To ensure that the reviews of audit reports are timely and accurate, the State Department of Education (department) should consolidate the review of agency audit reports for child care and development programs in either the OCD or the department's audit bureau. Furthermore, to improve the accuracy of the processing of audit reports, the unit responsible for reviewing agency audit reports should re-examine the requirements and guidelines for determining allowable income and expenditures of agencies and develop specific criteria for making these determinations. The unit should also establish quality control procedures to verify the accuracy of calculations made in the processing of audit reports.

The department should work with the Department of Finance to make changes in the Standards for Audits of Local Educational Agencies to ensure that the standards require information that the OCD needs to calculate the amount of funds each local educational agency is entitled to receive.

The department should strengthen its monitoring and control over repayment agreements. To do this, the department should fully implement existing procedures to ensure a prompt and consistent review of agencies that are delinquent in meeting

their repayment agreements. The department should also reconsider the policy allowing agencies to be reimbursed for full enrollment when their attendance (actual attendance plus excused absences) equals 93 percent of enrollment.

The OCD should continue its efforts to eliminate the backlog of unlicensed child care and development facilities. In addition, the OCD should implement and maintain an adequate management information system for recording and monitoring licensing information regarding the facilities that it funds. The OCD should use this information to establish a licensing schedule that is consistent with current requirements for licensing facilities and conducting follow-up visits.

The OCD should also fully implement the complaint processing procedures that it has established. The OCD needs to ensure that complaints are properly recorded and referred for investigation. The OCD should also ensure that complaints are reviewed and assessed to determine if inspections are necessary. When inspections are necessary, the OCD should conduct them within 10 days of receipt of complaints. The OCD should apply sanctions against agencies that fail to comply with licensing requirements.

To encourage greater utilization of state-subsidized child care and development funds, the Legislature should consider adopting a different method of funding for child care and development programs. Specifically, the Legislature should base reimbursement on the amount of service that an agency provides. The Legislature should also consider alternatives to the present definition of "excused absences."

REVIEW OF COLLECTIVE BARGAINING AGREEMENTS AT TEN CALIFORNIA SCHOOL DISTRICTS

Summary of Findings

Chapter 961, Statutes of 1975, established new procedures governing the relationship between public school districts and their employees. This law provides public school employees the right to join and be represented by organizations of their choice for the purpose of negotiating with school district management on matters related to wages, hours, and terms and conditions of employment. Terms and conditions of employment include health and welfare benefits, leave, transfer and reassignment policies, class size, performance evaluation, and grievance procedures. The law specifies that binding agreements between school districts and district employees be limited to no more than three years.

We reviewed selected provisions of collective bargaining agreements at ten California school districts to evaluate several contractual provisions between the school districts and the teachers' unions. We reviewed the provisions relating to the length of the school day, class size, evaluating teacher performance, and salary increases for the 1982-83 school year. We also identified the role that the school districts' boards of education play in negotiations with their teachers' unions.

Over the past 10 years, two of these school districts reduced the length of the student instructional day, one school district increased the instructional day, and seven school districts made no changes. Additionally, six of the districts experienced changes in the teachers' workday. Also, in comparing current agreements to those previously in effect, we found that provisions for class size have changed at only two districts and that provisions for the evaluation of teacher performance are consistent with existing law and have remained unchanged in all ten districts. Further, for the 1982-83 school year, six of the school districts provided teachers with salary increases ranging from 2 to 7.5 percent. Three of the remaining districts had not yet completed negotiations, and one district settled without providing salary increases to employees. Lastly, in nine of the ten school districts, the boards of education delegate the direct responsibility for negotiating with district employees either to teams of district administrators or to outside consultants.

OPPORTUNITIES EXIST TO STRENGTHEN THE STATE'S SYSTEMS FOR RESPONDING TO EMERGENCIES INVOLVING HAZARDOUS MATERIALS

Summary of Findings

We reviewed the State's systems for responding to emergencies involving hazardous materials. The goal of these systems is to protect the public and the environment from hazards that occur because of the accidental spill and release of toxic substances. Although state and local agencies have taken steps to prepare for emergency situations, local emergency response organizations need better contingency planning and personnel training, and the coordination of agencies at the scenes of incidents needs improvement. As a result of these deficiencies, the State is not assured of an efficient system for responding to emergencies involving hazardous materials.

State and local agencies develop plans to guide the emergency response to incidents involving hazardous materials. We found that while most counties have plans, the plans often provide inadequate detail about operational tasks. Also, only 172 (43 percent) of the 404 fire and police agencies that responded to our survey have plans, and local agencies frequently have neither assessed potential hazards in their areas nor conducted emergency response exercises.

In addition, because untrained response personnel have been injured at incidents involving hazardous materials, local agencies need to improve training in methods for handling hazardous materials. Over 70 percent of the fire and police agencies that responded to our survey reported that they lacked adequate training. Further, the training program provided by the State did not meet its training goal.

Finally, the authority for coordinating emergency response agencies at the scene of incidents needs to be clarified. Some local governments are improperly delegating the management of on-highway scenes to fire agencies rather than to law enforcement agencies. Although some officials we contacted reported that fire agencies are generally better prepared and better equipped than law enforcement agencies at the local level, this delegation violates state law and may result in breach-of-duty suits. If the authority for scene management is not clearly designated, the response to off-highway incidents may also not be coordinated.

Recommendations

To address weaknesses in the State's systems for responding to emergencies involving hazardous materials, the Office of Emergency Services (OES) should develop guidelines and provide technical assistance to local agencies preparing contingency plans for responding to such incidents. The OES should also establish a framework for coordinating training programs addressing hazardous materials. Further, the California Highway Patrol (CHP) should assess the training needs of local agencies to ensure that adequate training is provided to emergency response personnel. Finally, the OES and the CHP should encourage the designation of the authority for the scene management of off-highway incidents involving hazardous materials.

The Legislature may also wish to consider providing local agencies with greater flexibility in their delegation of authority for scene management. This flexibility would help to ensure that all incidents have a designated manager with sufficient expertise to handle emergencies involving hazardous materials.

THE EMPLOYMENT DEVELOPMENT DEPARTMENT COULD IMPROVE THE PERFORMANCE OF ITS JOB SERVICE AND UNEMPLOYMENT INSURANCE PROGRAMS

Summary of Findings

The objective of our review was to identify ways in which the Employment Development Department (department) could improve its operations and services. We focused on the department's methods of recovering overpayments of unemployment insurance benefits, the department's procedures for securing employment for job seekers, and the department's planning and evaluation of the automation of field offices.

The department would have been able to recover $6.2 million of the $13.5 million in overpayments that it wrote off since July 1980 if department policy and state law had been different. Legal and policy limitations restrict the department to recovering unemployment insurance overpayments for only three years after the department establishes the overpayment. Moreover, the civil proceedings involved in attaching an unemployment insurance claimant's wages are costly, and state law does not allow the department to use statutory summary judgments, a less costly alternative.

In 1982, the department had to forgo recovering $1.1 million in fraudulent overpayments because it lacks staff. Staffing problems have also prevented field offices from complying with procedures designed to maximize recoveries. Several alternatives for additional staffing do exist, however. For example, the department could redirect staff to pursue the recovery of overpayments if it automated its collection and recordkeeping activities. In addition, if legislation were enacted to allow the department to charge a penalty against claimants who fraudulently obtain benefits, the department could raise approximately $4 million in additional revenue that could be used to fund overpayment recovery activities.

Job Service staff do not devote enough time to activities that most effectively generate job openings: telephoning employers to solicit jobs and visiting employers to familiarize them with the department's services. Although the Job Service filled over 70 percent of the job openings it received, these placements resulted in jobs for only 14.7 percent of the persons requesting services. With a projected average of 1.2 million unemployed in 1984, there is a continuing need for the Job Service to assist job seekers.

Approximately 70 percent of the field offices we surveyed reported that staff did not have sufficient time to contact employers on behalf of all applicants who would benefit from such efforts. In addition, visits by field office staff to employers have declined by 67 percent over the last four years. Federal statutes and regulations, county policies, and ineffective management practices prevent staff from devoting more time to activities that result in job placements.

We found that the seven field offices that implemented the California Automation of Services Team (CAST) project have performed better than field offices using manual systems. Field offices using the CAST system process major workload items more quickly, handle high volumes of workload without staff augmentation, and issue more unemployment insurance benefit payments in a timely manner. Although the CAST offices demonstrate improved performance, they appear to be more expensive to operate than manual field offices. We cannot reach any firm conclusions about cost effectiveness, however, because of inadequacies in the department's cost accounting system.

The CAST offices may not be cost effective because the U.S. Department of Labor's funding method for the unemployment insurance program discourages the department from achieving efficiencies and savings in staff. In addition, the department has not adequately evaluated the CAST system to determine if it is cost effective. As a result, the department, which is currently developing plans for expanding CAST, does not have the information needed to make sound management decisions about how to revise the existing system or design a new system.

Recommendations

To increase the recovery of unemployment benefit overpayments, the Legislature should adopt legislation permitting the department to offset overpayments by reducing a claimant's benefits for a period longer than three years, enact a statutory summary judgment procedure for attaching wages of a claimant who has been overpaid, and permit the department to charge a penalty against claimants who obtain benefits fraudulently. The department should change its policy so that it could recover overpayments by intercepting State income tax refunds for at least eight years. The department also should automate its collection and recordkeeping activities to improve the efficiency of the Benefit Payment Control Program.

To increase the effectiveness of the Job Service, the Legislature should petition the U.S. Department of Labor to provide adequate funding for activities that it requires the department to perform. The department should establish standards specifying the minimum amount of time that field office staff must devote to contacting employers to solicit job offers and should require field offices to use more efficient methods for performing time-consuming activities. The department should also negotiate with counties so that counties require only employable General Assistance recipients to register with the Job Service.

To assist the department in its effort to improve efficiency through automating its field offices, the Legislature should petition the U.S. Department of Labor to change its funding formula. This formula currently discourages efforts to achieve staff savings. The department should redesign its cost accounting system so that the reports on field office operations reflect actual expenditures for unemployment insurance activities and include costs for operating the automated system. Based on data from this redesigned cost accounting system, the department should evaluate the cost effectiveness of each feature of CAST and should use this evaluation to develop a comprehensive plan for automating other field offices.

ADMINISTRATION OF THE POLITICAL REFORM ACT

Summary of Findings

In 1977, the Auditor General contracted with a private accounting firm to audit the State's implementation of the Political Reform Act of 1974 (act). The auditors recommended that changes be made in the enforcement activities of the Fair Political Practices Commission (commission), in the commission's assistance to persons governed by the act, and in the act itself.

We reviewed the commission's activities in carrying out the provisions of the Political Reform Act of 1974 to determine if the commission implemented the recommendations in our 1977 report and to determine whether a detailed review of the commission's current activities is warranted. In addition, we reviewed certain commission activities to determine if the commission is complying with the act's statutory requirements and with the commission's own administrative guidelines.

We found that the commission has fully implemented 13 of the 15 recommendations contained in our 1977 report, and it has selected cost-effective alternatives for the remaining two. Moreover, we found that the commission is complying with major provisions of the act for the selected activities that we reviewed. We also found that the commission's activities correspond to the commission's own guidelines for administering the act. Based on our limited review, we concluded that further audit work is not required at this time.

REVIEW OF THE NATIONAL COUNCIL ON GENE RESOURCES

Summary of Findings

In response to the Supplemental Report of the Budget Act of 1982, we reviewed the National Council on Gene Resources (council), a nonprofit research and educational organization, to determine whether the council complied with the requirements of its contract with the Department of Food and Agriculture (department) and whether it maintained appropriate and sufficient records of its expenditure of funds for its California Gene Resources Program. Gene resources refers to the genetic diversity needed to produce animals, plants, and micro-organisms used for society's basic needs, such as food, clothing, shelter, pharmaceuticals, and energy. Genetic diversity is needed to increase productivity, to maintain the quality of the environment, and to prevent losses in agriculture, forestry, and fishing.

We found that the council was late in meeting almost one-fifth of the milestones in the original contract. Although the council twice submitted revisions to the milestones, the council was still not meeting almost one-fifth of the new milestones at the time of our review. In addition, the council did not obtain prior approval for 8 of 15 out-of-state trips in fiscal year 1982-83; such approval is required by the contract.

Although the council has generally maintained appropriate and sufficient records of its expenditure of funds, we found several relatively minor problems. Specifically, the council does not adequately reconcile its expenditure of nonstate funds, the council overcharged the department approximately $700 for prepaid expenses that would benefit the council after the contract ends, and the department and the council have an expense reporting and billing system that requires unnecessary duplication of effort. Finally, there is no agreement between the council and the department for the disposition of books that the council purchased with state funds.

CALIFORNIA STATE POLICE DIVISION PRO RATA ASSESSMENTS FOR POLICE SERVICES ARE INACCURATE

Summary of Findings

We reviewed the method by which the California State Police Division (CSPD) maintains its inventory of property for assessing a pro rata charge for police services. The CSPD calculates its pro rata assessment based on an inaccurate property inventory. As a result of this inaccurate method of calculation, some agencies have been underassessed for their share of pro rata costs, while other agencies have been overassessed. We also provided information about the adequacy of the pro rata property list in reflecting the security needs of state property, the staffing needs of the CSPD, and the duplication of effort between CSPD security and agency security.

During our review, the CSPD took steps to correct some of the deficiencies we identified. These corrections include the following: new guidelines to the Space Management Division that use city boundaries to define the areas within which state property is subject to a pro rata assessment, making it much easier to determine if a facility should receive a pro rata assessment; orders to correct some errors in the property inventory found during the audit; and, a survey of state agencies that owned their own property. The CSPD undertook this survey in an attempt to find errors resulting from previously unrecognized property changes. However, the CSPD has yet to establish a formalized system to adjust the property inventory according to periodic changes.

Recommendations

To improve the accuracy of its property inventory, the CSPD should establish clear guidelines defining property that is eligible for pro rata charges and undertake a comprehensive survey of state agencies to discover errors and omissions from its inventory list. In addition, the CSPD should establish a mechanism to prevent errors and to update its property inventory list as changes occur.

REVIEW OF STANDARDIZED FORMS FOR PRE- AND POST-EVALUATION OF CONSULTING SERVICES CONTRACTS

Summary of Findings

Chapter 1208, Statutes of 1982, designates the Department of General Services (department) as the agency responsible for controlling contracts for consulting services. As part of this responsibility, the department is to develop a pre- and post-evaluation mechanism that includes standardized pre- and post-evaluation forms submitted to every state agency. Each state agency is to use these forms to evaluate consulting services contracts that must be submitted to the department for its approval.

The department has drafted a standardized pre-evaluation form and is devising standards for agencies that enter into contracts. The Contract Transmittal and Pre-Evaluation Form does not meet the Legislature's intended purposes of documenting need, ensuring competition, considering cost and benefits, and assessing the merit of potential contracts. The form does not require an agency to confirm, before awarding a contract, that the contract complies with all legal and administrative requirements. The absence of this and other contracting requirements makes it difficult for the department to determine if an agency has adequately met pre-award requirements.

The department's Contract/Contractor Evaluation form does not provide an assessment of how well a contractor performed. It also does not provide contract administrators, who consider potential contractors, with the names of those individuals responsible for administering previous contracts with a contractor, making it difficult for contract administrators to contact those who may have worked with a particular contractor. Further, it is our understanding that the department has not yet determined if agencies will be required to submit a post evaluation for only those contracts that had been approved by the department or for all service contracts, including those exempted from the department's review.

Recommendations

The Department of General Services needs to amend its draft Contract Transmittal and Pre-Evaluation Form to clarify when and for what purposes the form should be used. The department should reconsider how the pre-evaluation form is to be used.

We understand that the department intends to require an agency to complete and submit this form in those instances when the agency is not exempted from obtaining the department's approval (e.g., large contracts over $50,000). However, because the majority of contracts may in fact be exempt, we believe that requiring submission of this form for all contracts for services would be useful to agencies and contract officers in assuring that they properly apply the State's contracting policies. Furthermore, if the form were required for all contracts and if it were retained in an agency's permanent contract files, it would be a useful control and recording tool for post-audit review.

The department needs to revise the Contract/Contractor Evaluation Form to fulfill the intent of one of the requirements for reporting cost overruns. Since the State Controller will not pay more than the contract amount, a contract cannot theoretically have an overrun. Therefore, the department should amend its form to require agencies to report the original contract amount, the final contract amount, and the reasons for any differences and amendments.

Moreover, the proposed evaluation form does not require agencies to evaluate the quality of the contractor's performance. Rather, it requires agencies to report factual information that is useful but that does not really indicate whether the contractor performed well, marginally, or unsatisfactorily. We understand this ommission is by design and attempts to prevent a "blacklist" effect. However, if the department maintains this position, it should amend its Contract/Contractor Evaluation Form to require agencies to report the name of a person who can be contacted to discuss the performance of the contractor.

Although not required by statute or regulation, the department should determine if other compliance statements might improve the Contract/Contractor Evaluation Form. For example, the department may want agencies to report information that helps determine whether the agency complied with certain post-award contracting requirements, such as not permitting a contractor to commence work before the contract was formally approved. The department may also want information about modifications or amendments, if there were any, or may want information concerning progress payments or retained payments, as required by the State Administrative Manual.

GOLDEN GATE BRIDGE, HIGHWAY AND TRANSPORTATION DISTRICT:
RESPONSE TO QUESTIONS POSED BY THE LEGISLATURE

Summary of Findings

The Golden Gate Bridge, Highway and Transportation District (district) is a special district within the State of California. The district operates the Golden Gate Bridge and provides public transit services in Marin, Sonoma, and San Francisco counties. We reviewed the district's records and held discussions with the district's independent auditor and the regional planning agency. We found that the district's financial records permit a thorough evaluation of revenues and expenditures and that there is a formal, detailed plan for allocating revenues to various operations of the district. It appears that the district is in compliance with numerous restrictions on the use of operating funds.

In examining the funding sources available to the district, we found that its four divisions are financed by bridge toll revenues, passenger fares from transit services, and state and federal operating assistance funds. Further, it appears that the district has complied with the requirements for spending state and federal funds.

Our review also disclosed that the district has a formal plan for allocating revenue from bridge tolls. This revenue is applied to fund the total cost of maintaining and operating the Golden Gate Bridge. After passenger fares and state and federal operating funds have been spent, excess bridge toll revenues are used to subsidize transit operations.

Further, we found the levels of compensation and benefits paid to members of the district's board of directors and the district's general manager are comparable to those of five other districts we surveyed. Also, we found that the district's travel policies and costs are comparable to those of the other districts surveyed.

Finally, we found that the district's Equal Employment Opportunity Program and its Minority Business Enterprise Program have been certified by the Federal Urban Mass Transportation Administration as meeting or exceeding civil rights requirements.

THE GOLDEN GATE BRIDGE, HIGHWAY AND TRANSPORTATION DISTRICT: RESPONSE TO DEMANDS FOR ADDITIONAL TRANSIT SERVICES

Summary of Findings

We reviewed how the Ferry Division of the Golden Gate Bridge, Highway and Transportation District (district) met the demand for additional transit services during the severe storms that made roads in the area impassable during January 1982.

The district's Ferry Division responded to the additional passenger demand by increasing the frequency of its ferryboat services, augmenting the district's service by chartering private ferryboats, and providing additional bus service to and from the Larkspur ferry terminal. The period for which the district provided additional ferry service because of storm damage lasted from January 4, 1982, through January 22, 1982.

The operating costs of the Ferry Division increased when it provided additional services. The Ferry Division's revenue for the period also increased because of the additional ridership. We estimate that the revenue was $68,496 greater than normal and that the Ferry Divison's net additional operating costs resulting from the emergency were $42,380.

THE CONTROLS OVER THE USE OF WORD PROCESSING EQUIPMENT IN THE GOVERNOR'S OFFICE

Summary of Findings

We reviewed the controls over the use of word processing equipment in the Governor's Office. We found that the Governor's Office has established a new approval process that staff must follow before correspondence may be entered into the word processing machines. In addition, the Governor's Office has developed a written policy prohibiting staff from using state time or equipement for political activites. These measures, if they are followed, should ensure adequate control over the use of the word processing equipment.

The correspondence unit in the Governor's Office uses word processing equipment to initiate correspondence and answer correspondence received by the Governor, to process reports prepared by the Governor's Office, and to keep records, including information about the Governor's appointees.

In February 1981, the Governor's Office implemented a new procedure for approving correspondence before it can be entered into a word processor. This procedure requires staff to complete a clearance form that includes separate approval by eight individuals, including the Governor, the chief of staff, the director of administration, and the legal affairs secretary.

We reviewed a sample of 212 letters sent since February 1981 to determine whether the staff was following this new procedure. We found that a clearance form was prepared for all of the letters sampled, although in many instances, the form was not approved by all individuals listed on the form. However, in all but a few instances, both the director of administration and the chief of staff had approved these forms. At least one of these two officials had approved all the letters we reviewed.

Also, while we were conducting our review, the Governor's Office developed written policy, entitled "Code of Ethical Conduct," for its employees. This policy, to be implemented in March 1982, prohibits employees from using state time or equipment for political activities. The chief of staff within the Governor's Office has been given the responsibility of ensuring that the Governor's staff understands and adheres to this policy.

THE CALIFORNIA HEALTH FACILITIES COMMISSION CAN IMPROVE THE REPORTING OF HEALTH-CARE DATA

Summary of Findings

We reviewed the California Health Facilities Commission's (CHFC) effectiveness in collecting, processing, and publishing health-care cost and statistical information. In response to Supplemental Language to the 1981-82 Budget Act, we also provided information on the activities of the Economic Criteria for Health Planning Committee of the CHFC. The CHFC is responsible for establishing and maintaining a system of uniform accounting and reporting for approximately 600 acute care hospitals and approximately 1,200 long-term care facilities in California. In addition, the CHFC is responsible for collecting financial data and other statistics from these health facilities and making this information available to the public.

The CHFC has developed a standard accounting and reporting system for the hospitals and long-term care facilities. It has also generally published on time those reports that have specific deadlines. These reports provide information that was not previously available to health planners and consumers.

However, our review indicated that the CHFC does not ensure that it collects and publishes accurate information. Health facilities do not always report health-care data accurately or in accordance with CHFC reporting requirements. Inaccurate CHFC health-care information limits the ways in which health planners and the public can use the CHFC reports.

Inaccurate information has resulted because the CHFC quality control program does not include a review of health facilities to ensure that they have implemented the standard chart of accounts and reported the data in a manner that is consistent with reporting requirements. Also, the CHFC does not provide adequate instruction or guidance to health facilities because it does not routinely amend or clarify reporting requirements. Further, CHFC staff may provide inconsistent answers to health facilitiy administrators who ask questions about reporting requirements. Finally, the CHFC has been unable to offer training programs to assist the staffs of health facilities in maintaining the CHFC accounting system and in preparing the disclosure reports.

Not only is the information published by the CHFC not as accurate as it should be, some of the information does not reflect current conditions. The CHFC does not promptly collect annual disclosure reports from most hospitals and almost half of the long-term care facilities; consequently, data for health facilities in some CHFC reports are between one and one-half and three and one-half years old at the time of publication. The CHFC routinely grants extensions to health facilities' filing deadlines instead of assessing civil penalties for late filing; this practice does not encourage facilities to file their reports promptly. Also, the CHFC does not always promptly receive certain disclosure reports that are filed with the State Department of Health Services. Furthermore, the CHFC data collection procedures are designed to control the data collection workload rather than to facilitate the timely publication of information. Finally, the CHFC's internal processing delays have also contributed to the delay in publishing reports.

Recommendations

In order to improve the accuracy of its data, the CHFC should review and improve its quality control system and ensure that it provides sufficient guidance to health facilities for preparing the disclosure reports. To ensure that the CHFC's information is up-to-date and of optimum benefit to health planners and consumers, the CHFC should institute procedures that will ensure the prompt collection of disclosure reports from health facilities. The CHFC should also review its publication periods and consider the benefits of publishing some of its reports on a semi-annual basis.

THE DEPARTMENT OF HEALTH SERVICES' NEWBORN SCREENING PROGRAM: RESPONSE TO QUESTIONS POSED BY THE LEGISLATURE

Summary of Findings

The Department of Health Services (department) is responsible for administering the State's Newborn Screening Program. This program tests all newborns for three hereditary diseases that cause severe mental retardation--phenylketonuria, galactosemia, and hypothyroidism. We reviewed certain aspects of the Newborn Screening Program, including the distribution of fee revenue collected for newborn screening, the timeliness of the testing program, and the contracts used to administer the program.

We found that the $24 fee collected by hospitals from parents whose infants are tested has been deposited into a special fund for genetic disease testing and has not been used to support the program. Instead, loans from the State's General Fund have been used to offset program costs. These loan funds are being used in accordance with Section 309 of the Health and Safety Code.

Our review also disclosed that laboratories under contract with the State have completed the screening for all three genetic diseases within two days after receiving a blood sample. If the laboratory obtains a positive test result, the newborn's physician is immediately notified by telephone. When it has been confirmed that an infant has a genetic disease, the physician, on the average, initiates treatment in 13.7 days for phenylketonuria, in 4.8 days for galactosemia, and in 13 days for hypothyroidism. Also, we found that the department sends written notification of all test results to hospitals and physicians within an average of 10 days from the date the blood sample is drawn.

We found that the department furnished equipment to the laboratories under contract with the State. Some laboratories may not have been willing to purchase this testing equipment for only a 22-month contract. In addition, the department could relocate to a new laboratory immediately if necessary.

The department contracts with 13 area genetic centers to provide follow-up and other services for the Newborn Screening Program. The amount budgeted for the centers in fiscal year 1981-82 totaled $787,672. While we did not determine the cost-effectiveness of the area genetic centers, we found some

inconsistencies between the amount of funds budgeted for the centers and the staff workloads at these centers. Also, the staff at some centers are working less than the time specified in the state contract on newborn screening.

Finally, when an initial test result is positive and a confirmation test is required, the confirmation test is performed either by a state laboratory or by the Children's Hospital of Los Angeles. Department officials said that a centralized state laboratory is used because it can ensure that confirmation tests are done promptly. The department contracts with the Children's Hospital of Los Angeles because the staff of this hospital have the most experience with confirmation testing for galactosemia. The monthly rate paid by the department for this service should be reviewed. Other states pay the Children's Hospital of Los Angeles a single fee for each completed test.

We noted some problems in the department's procedures for billing and collecting newborn screening fees. As previously noted, the $24 screening fee is collected from the newborn's parents by the hospitals, which are in turn sent an invoice by the State. Hospitals are required to pay the State upon receiving the invoice. We found that the department has a large number of uncollected fees because its accounting system has not rebilled hospitals for overdue payments. Department officials stated that they are presently identifying those hospitals whose accounts are delinquent and that they will be rebilling them accordingly. Also, the department plans to rebill delinquent accounts as a regular part of its current billing procedures.

Recommendations

To remedy the problems we identified regarding the fee revenue collected from the Newborn Screening Program, the department should continue its plans to use fee revenue to offset program expenditures, establish a loan repayment schedule, and establish a system for rebilling and collecting delinquent accounts in a timely manner. The department should also consider charging a late fee for delinquent accounts. To improve its monitoring of area genetic centers, the department should consider the number of births in each center's region when computing each center's budget and require the area genetic centers to document the amount of time that their staff work on the Newborn Screening Program.

MEDI-CAL CAN REDUCE CERTAIN PROGRAM AND ADMINISTRATIVE EXPENDITURES

Summary of Findings

As a federal/state health-care program, Medi-Cal, pays for all or part of the medical expenses of approximately 3 million Californians. Individuals who receive welfare assistance in the form of cash grants are automatically eligible for Medi-Cal. In addition, medically needy and medically indigent individuals and families receive Medi-Cal benefits. Since these two groups do not receive cash grants, they must apply for Medi-Cal. They constitute what is known as the medical-assistance-only category. The Department of Health Services (department) administers the Medi-Cal program for medically needy and medically indigent individuals and families. County social service departments determine the eligibility of these beneficiaries for Medi-Cal coverage.

The State can reduce expenditures for medical-assistance-only beneficiaries by improving the methods used to determine an individual's eligibility. Existing regulations regarding income verification are not sufficiently restrictive. Furthermore, because counties are not adequately complying with existing regulations, they are experiencing signficant error rates in determining the eligibility of medically needy and medically indigent beneficiaries. Also, the department's monitoring program has not conducted the necessary case reviews that guide the technical assistance that the department provides to counties to help eliminate errors.

A statutory change could also reduce program expenditures. The State currently provides a special income deduction to certain medically needy persons that does not comply with federal regulations and that may result in the federal government's disallowing millions of dollars in federal funding.

The eligibility of Medi-Cal applicants and beneficiaries is constantly changing because of such factors as mobility and unemployment. Consequently, the department attempts to ensure that counties discontinue the eligibility of individuals who no longer qualify for the program. The department requires counties to obtain information at least quarterly about changes in beneficiaries' income, living arrangements, and other items that could affect eligibility. The counties revise the share of medical costs that beneficiaries must pay when their incomes or expenses have changed.

Since 1972 the State has reimbursed Los Angeles County for costs associated with administering two separate systems for determining the eligibility of medical-assistance-only beneficiaries. The Los Angeles County Department of Health Services operates one system, processing applications taken from individuals admitted to the county hospitals. The Department of Public Social Services administers the other system, processing applications in its district offices.

The Legislature has limited the reimbursements made to the Los Angeles County Department of Health Services for processing applications in the county hospitals. However, the department is still reimbursing Los Angeles County for the excess costs that result from the two systems. We estimate that the State could save approximately $2.1 million in administrative costs if it did not subsidize Los Angeles County for the duplication created by the present system for processing Medi-Cal applications.

Recommendations

To reduce the number of errors in determining eligibility, the department should strengthen regulations by requiring counties to verify accurately the income of applicants within the required 60-day time period. Additionally, the department should review the appropriateness of the 60-day deadline and determine whether it could be reduced. To minimize potential federal disallowances of funds, the Legislature may wish to consider eliminating the special income deduction that currently applies to certain medically needy individuals.

Furthermore, the department should obtain sufficient data to determine and evaluate the costs and benefits of the quarterly status report in obtaining information about the change in the status of beneficiaries. The department could then determine if the cost to process the quarterly status reports exceeds the benefits they provide. However, any alternate system that the department considers should maintain sufficient contact with beneficiaries.

Finally, the department should develop a method for reimbursing Los Angeles County that does not subsidize the county for the duplication created by the two systems for processing Medi-Cal applications.

THE DEPARTMENT OF HEALTH SERVICES CAN IMPROVE THE ENFORCEMENT OF HEALTH CARE STANDARDS IN LONG-TERM CARE FACILITIES

Summary of Findings

This is the second review of the Department of Health Services' Licensing and Certification Division conducted by the Office of the Auditor General. The first review was conducted in 1977. The present review found that some of the deficiencies identified by the Auditor General in 1977 continue to exist.

The Department of Health Services (department) is responsible for ensuring that chronically ill or convalescent patients in California's long-term care facilities receive adequate care as defined in state and federal health and safety standards. However, the department is not satisfactorily enforcing these health standards. Some long-term care facilities are frequently not complying with critical health standards. These facilities are exposing their patients to conditions that could endanger their health, safety, and security. The department does not promptly investigate complaints about substandard care. Additionally, current enforcement practices and procedures do not effectively prevent repeated violations of health and safety standards. Finally, the department lacks the information necessary for identifying and assessing trends of substandard care in long-term care facilities.

Recommendations

The department should improve the processing and investigating of complaints, and it should ensure that district offices respond properly to these complaints. Further, the department's enforcement practices and procedures should be improved to facilitate the consistent application of health standards, citations, and assessed fines. To improve the monitoring of the performance of district offices and long-term care facilities, the department should develop a comprehensive management information system. The department should also clarify the definition of a repeated violation, and it should clarify the criteria for tripling fines. Finally, the Legislature should amend the Health and Safety Code to require a fine for a Class "B" citation even if the violation is corrected.

STATE COSTS FOR MEDI-CAL FISCAL INTERMEDIARY SERVICES SUPPLIED BY COMPUTER SCIENCES CORPORATION, 1978-1983

Summary of Findings

The Department of Health Services (department) has been designated as the single state agency responsible for administering the Medi-Cal program. The department does not, however, directly process and verify the claims of those providing services to Medi-Cal beneficiaries. These functions are performed by its fiscal intermediary, the Computer Sciences Corporation (CSC), which contracts with the State to process and verify the claims.

In August 1978, the department awarded the CSC a five and one-half year contract for processing Medi-Cal claims through February 29, 1984. The contract requires the CSC to design, develop, install, and operate the Medi-Cal claims processing system. The department delegated responsibility for managing and monitoring the CSC contract to its Fiscal Intermediary Management Division.

We compiled information regarding the State's expenditures for Medi-Cal fiscal intermediary services under the current contract with the CSC. We estimate that the State's payments to the CSC will have totaled approximately $104.1 million for fixed cost and fixed rate payments, and $27.4 million for cost reimbursable payments for five years of service through the end of fiscal year 1982-83. We also estimate that an additional $12.9 million will have been spent for change orders. In addition, we estimate that the State lost approximately $3.4 million in federal funds due to delays in gaining the Health Care Financing Administration's full certification of the Medicaid Management Information System within the CSC claims-processing system.

STATUS REPORT ON THE SELECTION OF THE NEXT MEDI-CAL FISCAL INTERMEDIARY

Summary of Findings

Since the Medi-Cal program was implemented in 1966, a nongovernmental fiscal intermediary, under contract to the State, has processed Medi-Cal claims and performed various payment activities. The Department of Health Services (DHS) awarded the current contract to the Computer Sciences Corporation for an estimated $129.6 million. This contract, which provides for a one-year extension at the State's option, is scheduled to terminate on February 29, 1984.

To procure the next fiscal intermediary, the State established a task force to develop the Request for Proposal. An interagency agreement, effective October 1, 1981, shifted responsibility for the procurement effort from the Director of the DHS to the Secretary of the Health and Welfare Agency. The agreement also provided for staffing and funding for the Medi-Cal Procurement Project (MCPP) within the Health and Welfare Agency and for a management consulting contract. The MCPP is responsible for drafting the new Request for Proposal, evaluating contract proposals, and phasing in the next contractor.

The MCPP is underway and fully staffed. MCPP management have established milestones over the course of the project assuming that the current fiscal intermediary contract will be extended for up to 12 months. Although delays prevented the project from meeting two of its scheduled milestones, it is too early to know whether these delays will affect the overall project schedule.

The MCPP has not formally decided to make a recommendation to the DHS on a contract extension. In addition, the MCPP does not know the complete status of the documentation of the current claims-processing system. The DHS will take appropriate action to ensure that the Computer Sciences Corporation makes any needed improvements required by the contract.

STATUS OF THE MEDI-CAL PROCUREMENT PROJECT AND REVIEW OF ITS DRAFT REQUEST FOR PROPOSAL

Summary of Findings

This is the fourth Auditor General report addressing issues pertaining to efforts of the Health and Welfare Agency's Medi-Cal Procurement Project (MCPP) to select the next Medi-Cal fiscal intermediary. Our work is intended to help ensure that problems experienced under the current contract are not repeated in the new contract.

The MCPP continues to remain on schedule. MCPP management has established the following major milestones for the project: (1) release of the final Request for Proposal (RFP) on March 1, 1983; (2) contract award on September 1, 1983; (3) processing of all new claims by the next contractor on October 1, 1984; and (4) earliest phase-out of the current contractor on January 1, 1985. These milestones assume that the current fiscal intermediary contract will be extended for at least 10 months, although the MCPP management has been unable to determine the exact length of the required extension.

The MCPP director has stated that the documentation of the present claims-processing system, a problem we addressed in earlier reports, is adequate for review by bidders. Bidders must be able to review the system documentation to understand how the system operates, and inadequate documentation might result in protests by bidders alleging their inability to compete fairly. Protests could result in delays in procuring the next fiscal intermediary.

Reform legislation enacted in 1982 authorized a number of changes in the Medi-Cal program. Our monitoring indicates that major legislative changes are being included either in the present contract or in the new RFP. Additionally, the draft RFP also contains background on the Medi-Cal program, a summary of major legislative changes, and an explanation of the reduction in the number of claims to be processed by the contractor resulting from these changes.

Although the MCPP has made numerous changes to the RFP's drafts in response to our recommendations, we remain concerned with two areas of the draft RFP: quality control provisions and payment for the contractor's operations.

The quality control provisions in the draft RFP appear deficient. The draft RFP does not have clearly identifiable performance standards, nor does it set accuracy standards for significant areas of contractor performance, including claims processing. It also does not provide for an independent monitoring system to measure the contractor's performance against established standards. Furthermore, the provisions for assessing damages for failure to comply with the contract may be difficult to enforce. If these conditions are not corrected, problems with the current contract may be repeated in the next contract.

The provision in the draft RFP for paying the contractor for operations should be more specific. Under the proposed RFP the State would pay for operations only when the contractor meets contractual requirements. However, the draft RFP does not specify certain requirements, nor does it adequately describe damages to be assessed if the contractor fails to meet these requirements. Because the language is subject to conflicting interpretations, these provisions may be difficult to enforce.

REVIEW OF THE DEPARTMENT OF HEALTH SERVICES' PROGRAM TO RECOVER MEDI-CAL PAYMENTS FOR WORK-RELATED INJURIES

Summary of Findings

We reviewed the Department of Health Services' (department) program to recover Medi-Cal payments made to beneficiaries for work-related injuries. As a result of legislation, the department contracted with Lien Services of Northern California (contractor) in July 1982 to recover Medi-Cal payments owed the State by third parties liable for work-related injuries. The contractor's fee is 20 percent of the net amount recovered from the liens. According to the contract, the contractor planned to identify an estimated $6 million in payments owed the State during its 24-month contract.

As of February 1983, the contractor stated that it had identified 23,081 potential cases for recovery in northern California; for 15,307 of these cases that are still in litigation, the contractor is preparing liens to be filed with the Workers' Compensation Appeals Board. The dollar amount associated with these cases cannot be determined and is not specified in the lien. A number of problems hinder the collection efforts; the primary obstacle is the contractor's inability to get necessary Medi-Cal claims information. Without this information, the contractor cannot correctly determine the dollar amounts of the liens to be filed. In addition, the State cannot recover approximately $8 million in Medi-Cal overpayments without this claims information.

Information on Medi-Cal beneficiary history has been produced by the State's two Medi-Cal fiscal intermediaries. Data from the department's previous fiscal intermediary, Medi-Cal Intermediary Operations are stored in a warehouse in Sacramento, but the records are not organized in a form that will permit retrieval. Data from the department's current fiscal intermediary, Computer Sciences Corporation, are available to the State; however, under the provisions of the contract with the Computer Sciences Corporation, Medi-Cal beneficiary history is only available for direct retrieval for 15 months. Finally, the department maintains Medi-Cal data by beneficiary identification number, but the department did not require the file to be alphabetized by last name before 1978. Our review of beneficiary files produced prior to 1978 indicated that many recipients were listed by first name.

Recommendations

To facilitate Lien Services of Northern California's efforts to recover Medi-Cal payments owed the State and to enable state agencies in their recovery work, the Department of Health Services should develop plans for making the Medi-Cal Intermediary Operations data and the Computer Sciences Corporation data available.

THE CALIFORNIA HORSE RACING BOARD NEEDS TO IMPROVE ITS REGULATORY CONTROL OF HORSE RACING

Summary of Findings

The California Horse Racing Board (board) regulates the horse racing industry in the State and has jurisdiction and supervision over horse race meetings where wagering is conducted. The board has a range of responsibilities to help ensure and promote the integrity of horse racing, to protect the betting public, and to ensure that the State receives its share of revenue from wagering. Wagering in 1980 exceeded $1.8 billion, and the State's share amounted to over $132 million.

We reviewed the operations of the board and its financial records, using performance and financial audit techniques to evaluate the adequacy of the board's supervision of horse racing activities. We found that the board needs to improve procedures for monitoring and controlling certain critical activities in horse racing. The board has not established comprehensive guidelines for the auditing of parimutuel wagering activities. As a result, parimutuel audits do not include certain important steps that are necessary to provide the board adequate assurance that revenues are reported accurately.

Also, the board does not require racing associations to submit an audited statement of charity race day revenues given to charity foundations for distribution to charitable organizations. Although the board does require charity foundations to submit audit reports, only one-half of these reports were available for our review for calendar year 1980. In addition, the board has no formal system for monitoring the quality of testing conducted by its official racing laboratory. As a result, the board has no assurance that testing is conducted accurately and that racing participants are adhering to the board's drug and medication regulations.

Further, board staff have not fully defined the role and duties of the board's investigators. As a result, some important enforcement activities are receiving less investigative attention than the board members believe they should. Finally, the board has not fingerprinted all applicants for licenses to enable the California Department of Justice to conduct

investigations of criminal background. As a result, there is the potential for licensing persons who would not be allowed to participate in racing because of prior criminal convictions.

We also examined, in accordance with generally accepted auditing standards, the combined balance sheet of the California Horse Racing Board and the related statements of revenues, expenditures, and changes in fund balance and operating clearing for the year ended June 30, 1981. Our opinion stated that these financial statements present fairly the financial position of the California Horse Racing Board at June 30, 1981, and the results of operations and the changes in fund balance and operating clearing for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Recommendations

To improve its regulatory control of horse racing activities, the board should develop, implement, and maintain standardized guidelines for the audit of parimutuel operations. The board should also improve the monitoring of charity race day proceeds by requiring audit reports to verify that proceeds have been calculated correctly and distributed properly.

The board should improve procedures for enforcing certain horse racing laws and regulations. The board should improve the enforcement of drug and medication regulations by developing and implementing a quality control program to assess the work of its official racing laboratory. The board should also fully define the role and duties of its investigators by developing detailed duty statements and procedural manuals. Finally, the board should improve its licensing activities by ensuring that all applicants for licenses are fingerprinted.

ADMINISTRATION OF THE PETITION PROCESS FOR MOBILE HOME FEES

Summary of Findings

We reviewed the Department of Housing and Community Development's (HCD) administration of the petition process authorized by Chapter 40, Statutes of 1982. This legislation allows owners of mobile homes that have been transferred from the vehicle license fee system to local property taxation because of delinquent mobile home registrations to petition the HCD to reinstate the mobile home to the vehicle license fee system.

As of December 29, 1982, the HCD had processed 4,677 petitions for reinstatement to the vehicle license system. Of these 4,677, the HCD approved 713 (15 percent) and denied 3,964 (85 percent). However, the HCD has inconsistently applied its criteria for approving petitions. The inconsistency has almost always been in favor of the mobile home owner. Thirty-one of 100 approved petitions that we reviewed did not meet the HCD's criteria for approval; only 1 of 100 denied petitions we reviewed was improperly denied. Further, the criteria developed by the HCD appear to be more restrictive than the Legislature intended.

Recommendation

The Department of Housing and Community Development should clarify its petition approval criteria to reduce the degree of subjective judgment involved in evaluating petitions. Criteria for cases involving inability to pay fees, or "unique circumstances," should be more precise. The HCD should also ensure that staff reviewing petitions fully understand the limits of acceptable criteria and ensure that such criteria are applied consistently.

Also, the HCD should reevaluate its petition approval criteria to ensure that these criteria are consistent with legislative intent. In particular, the HCD should reconsider its criteria for cases involving reasons such as serious illness and financial hardship.

THE SYSTEM FOR ADJUDICATING WORKERS' COMPENSATION DISPUTES CAN BE ACCELERATED WITHOUT A BUDGETARY INCREASE

Summary of Findings

The Constitution of the State of California requires that the workers' compensation system accomplish justice expeditiously. We found, however, that the adjudication process requires an average of 12 months to complete. Also, the Workers' Compensation Appeals Board (WCAB) is not scheduling referees to hear cases for all available hearing time, and hearing time is being wasted. Finally, we found that the WCAB should use pro tempore referees to preside at conference hearings, thus freeing regular referees to preside at more regular hearings. The WCAB could increase the productivity of its referees by the equivalent of 33 positions by implementing all of these changes to the system.

Our review also disclosed that the WCAB could save approximately $1 million annually by employing electronic recording devices to perform some of the functions now carried out by court reporters. Finally, we found that since the Information and Assistance Bureau has achieved some success in minimizing unnecessary litigation, the Department of Industrial Relations (department) should expand the duties of the bureau to reduce workers' reliance on the litigation process.

Recommendations

To make the adjudication process more efficient, the Department of Industrial Relations should immediately implement the following changes in the WCAB's procedures for scheduling cases for hearings: adopt and enforce a workload standard that requires referees to be scheduled for hearings 24 hours a week; amend the Policy and Procedural Manual to instruct referees in charge and calendar clerks to place high priority on scheduling hearings in time slots made available when hearings are cancelled sufficiently in advance of the hearing date so that time remains to serve a notice of hearing; amend the Policy and Procedural Manual to include a process for identifying attorneys or other parties in a dispute who would be willing to waive the requirement that notices of hearings be served.

The department should evaluate after one year the effectiveness of the rule changes adopted July 1, 1981. If these rule changes have not proved effective in significantly reducing the number of wasted hearings and continuances, the WCAB should propose legislation empowering it to levy sanctions against parties who fail to appear or who are not prepared for hearings.

The department should immediately implement a six-month pilot program using pro tempore referees for conducting conference hearings on cases at selected WCAB district offices. If this program proves effective in accomplishing the objectives of conference hearing as established in the Rules of Practice and Procedure, then it should be expanded statewide.

The department and the WCAB should monitor referees' continuance orders to ensure that the specific good cause for continuance appears on the order and that referees are granting continuances only for reasons that constitute good cause.

To substitute electronic recording devices for court reporters, the Legislature should enact a statute enabling the WCAB to record hearings by any means it determines to be accurate and efficient, including electronic recording systems that have been approved by the Judicial Council.

Once such legislation is enacted, the Division of Industrial Accidents and the WCAB administrators should meet with the representatives of the Department of Personnel Administration and the State Personnel Board to design a plan and establish a time schedule for phasing out court reporters; conduct a workload analysis to determine the number of hearing transcriber-typists needed to transcribe referees' dictation and to prepare transcripts; purchase the necessary electronic recording and transcribing equipment; and synchronize the implementation of electronic systems with an organized hiring and training program for monitors and hearing transcriber-typists. Referees should also be thoroughly briefed on the new equipment and procedures.

To increase the use of the Information and Assistance Bureau, the Division of Industrial Accidents and the WCAB should adopt a provision in the Rules of Practice and Procedure to require referees in charge to refer all *in pro per* applications to information and assistance officers. The initial review of *in pro per* applications by the information and assistance officer should be a mandatory step in the adjudication process.

One year after the recommendations to increase the efficiency of the adjudication process have been implemented, the Division of Industrial Accidents and the WCAB should conduct a one-year pilot program to refer specific injury cases, excluding those involving apportionment, to the information and assistance officers. If the Information and Assistance Bureau cannot settle the dispute, the case should then be referred to the WCAB. At the end of the pilot program, the Division of Industrial Accidents should evaluate its effectiveness. If the Division of Industrial Accidents finds that the Information and Assistance Bureau is successful in minimizing litigation, it should amend its Rules of Practice and Procedure accordingly and should then redistribute resources from its litigation function to support an expanded Information and Assistance Bureau.

The Division of Industrial Accidents should expand the outreach activities of the Information and Assistance Bureau. This should include mailing information on workers' compensation laws and rights to injured workers who file injury reports.

One year after these recommendations have been implemented, the department should conduct a comprehensive workload analysis to determine the appropriate staffing levels of the Workers' Compensation Appeals Board and the Information and Assistance Bureau. The department should also evaluate the validity of the statutory requirement that decisions must be rendered within 30 days after a case has been submitted to a referee.

REVIEW OF THE STATE BOARD OF LANDSCAPE ARCHITECTS

Summary of Findings

We reviewed an audit of the State Board of Landscape Architects (board) and surveyed the board's operations to determine whether there is a need to conduct a management audit of the board.

The Internal Audit Unit of the Department of Consumer Affairs has conducted the only recent audit of the board. The internal auditors' review of revenue showed that reported board revenues were substantially correct. We reviewed certain board activities and found that they appear to be in conformance with the State's statutory requirements and administrative guidelines. We also found that the board's activities correspond to its program objectives to license, examine, and regulate landscape architects. In addition, the board and the Department of Finance are jointly preparing a zero-base budget for the board's activities for fiscal year 1983-84. Department of Finance staff are assisting the board in examining its expenditures and operations to enable the board to evaluate and rank its program objectives. Based on all of the above, we conclude that a management audit of the board is not necessary at the present time.

OPERATIONS OF THE LONG BEACH COMMUNITY SERVICES DEVELOPMENT CORPORATION

Summary of Findings

The Long Beach Community Services Development Corporation, Inc. (corporation), is a private, nonprofit California corporation. It was formed in August 1979 to promote, develop, and manage a diversified program of assistance for low-income residents of the City of Long Beach. The corporation is the city's official anti-poverty agency and is authorized to receive federal funds.

The corporation provides direct services to clients in the areas of youth development, energy services, and community services. It also funds seven delegate agencies to provide the following programs for 1982: women and child abuse counseling services, homemaker services for senior citizens, energy advocacy for low-income residents, counseling for low-income Asians, and employment, counseling, and referral services for senior citizens.

We found that the Long Beach Community Services Development Corporation, Inc., is appropriately using its resources to serve the low-income residents of Long Beach. However, our review of the corporation's management functions indicates that there is some disparity between program priorities identified by the community and those contained in the corporation's 1981 work program, and that substandard program budgeting and delayed federal funding in 1981 resulted in an excessive administrative cost rate. Additionally, in its first year of providing direct services, the corporation has experienced a high employee turnover rate and uses a community action approach to providing services instead of serving as a traditional administrative pass-through agency. This approach and the negative perceptions of the corporation's management have raised concerns from some members of the community about whether services are actually being provided to low-income residents of Long Beach. However, we determined that the corporation and its delegate agencies did meet, and in most cases exceeded, their 1981 service goals except for two programs that could not document their actual accomplishments.

REVIEW OF THE BOARD OF MEDICAL QUALITY ASSURANCE

Summary of Findings

The Board of Medical Quality Assurance (board) is an administrative agency within the State Department of Consumer Affairs. The board, which consists of 19 members appointed by the Governor, is divided into 3 autonomous divisions: the Division of Medical Quality, the Division of Licensing, and the Division of Allied Health Professions.

The Enforcement Program of the Division of Medical Quality is responsible for taking action against all persons guilty of violating the Medical Practice Act. We found that the board acted appropriately in most of the investigations we reviewed. However, we found instances in which the board could improve its enforcement procedures for interviewing physicians, conducting arrests, and requiring physicians to submit to psychiatric examinations. The board should also continue its efforts to place a high priority on educating physicians in appropriate drug-prescribing practices. Finally, because of limitations in its statutory authority, the board is restricted in the actions it can take against physicians who demonstrate deficiencies in competency.

Our review of the Diversion Program for Impaired Physicians disclosed two deficiencies. First, compliance officers are not adequately monitoring and enforcing treatment programs. Second, participants diverted from the enforcement program who do not comply with their treatment programs are not being terminated from the program and referred back to the enforcement program for possible disciplinary action. However, during the course of our review, the board began to correct each of these problems.

The terms and conditions of probation or the provisions in the treatment plan for the Diversion Program may require a physician's practice to be limited to a supervised, structured environment. Our review of physicians on probation who are required to work in supervised, structured environments and who are employed in state hospitals, showed that the supervision appears to be adequate. Most physicians are assigned duties similar to those of their previous practice.

Applicants for a physician's and surgeon's license are required to complete specific questions on their applications regarding previous criminal convictions and disciplinary actions. The Division of Licensing verifies the answers about prior criminal convictions by submitting applicants' fingerprints to the Department of Justice. Applications having no evidence of convictions and no indication of previous disciplinary action are processed for licensing. Applications indicating criminal convictions or disciplinary actions receive additional review. If the applicant has minor convictions, the Program Manager of the Division of Licensing will approve the application. Applications indicating more serious convictions or disciplinary actions are reviewed by a subcommittee.

Recommendations

The board could improve its enforcement procedures by doing the following: interviewing all physicians charged with noncriminal violations after investigative evidence has been obtained and before serving the physician with a formal accusation; evaluating whether to employ alternatives to physical arrest, such as seeking voluntary surrender and issuing misdemanor citations in cases where risk factors are minimal; informing physicians of their right to submit evidence in their behalf before they are required to have a psychiatric examination; and placing a high priority on educating physicians in appropriate drug-prescribing practices. The board should also recommend to the Legislature ways of dealing more effectively with physicians who demonstrate simple negligence in their medical practice. Such a proposal should consider protecting the rights of physicians, furthering public protection, and continuing to operate within existing budgetary resources.

To ensure that the board complies with its proposal to correct the deficiencies in the Diversion Program, the board should provide a schedule for establishing the frequency of compliance officer contact with program participants and for developing a more structured job description and performance measures for compliance officers.

STATE HOSPITAL POLICIES ON FIELD TRIPS BY MENTALLY ILL PATIENTS COMMITTED BY THE COURTS AND THE DEPARTMENT OF CORRECTIONS

Summary of Findings

We reviewed state hospital policies and procedures related to field trips into the community by mentally ill patients who were committed to state hospitals by the court system or by referral from the Department of Corrections. We were asked to determine how the state hospital field trips are approved and controlled, who pays for them, and whether the Department of Corrections provides similar field trips for its inmates. Our work included a review of the three state hospitals that confine nearly 99 percent of the patients identified above.

Atascadero, Napa, and Patton state hospitals provide field trips for their patients, although Patton no longer permits its penal code patients to participate in these trips. All three hospitals approve and control field trips by selecting patients who will benefit from the trips, by having the staff who treat and supervise the treatment of patients approve the field trips, and by having hospital staff supervise patients to ensure the safety of both the community and the patient.

The wages of supervising hospital staff and the costs of transportation for field trips are charged to the State's General Fund, although supervising staff wages do not represent an additional cost to the hospitals. Patients and staff use their own money for the purchases they make during field trips.

The Department of Corrections permits inmates to leave its facilities for temporary community releases. Recent temporary community releases were authorized for activities such as participating in employment interviews and examinations, and making residential arrangements. The department did not authorize any recreational releases. The Department of Corrections has specific procedures for temporary community releases, and under department policy, inmates reimburse the department for costs associated with the temporary releases.

THE DEPARTMENT OF MENTAL HEALTH'S METHOD OF ALLOCATING STATE HOSPITAL DAYS OF SERVICE TO COUNTIES DURING FISCAL YEARS 1979-80 AND 1980-81

Summary of Findings

For fiscal year 1982-83, the Legislature appropriated $213.8 million to state hospitals for the purpose of providing services to county patients. The Department of Mental Health (department) controls counties' use of state hospitals by initial and final allocations of state hospital patient days to each county during each fiscal year. The department uses these allocations to monitor the counties' use of state hospitals.

We examined the department's method of allocating state hospital patient days to counties during fiscal years 1979-80 and 1980-81 to determine whether any counties used more hospital days than they were allocated and whether the department took appropriate action to recover funds from counties that exceeded their allocations.

During fiscal year 1979-80, 17 counties exceeded their final allocations by approximately 2,800 patient days. However, because total use by all counties did not exceed the total number of available patient days, the department did not reduce the local assistance funds for these counties. In addition, the Director of the Department of Finance thought that reducing the local assistance funds would result in additional use of state hospitals.

During fiscal year 1980-81, 27 counties exceeded their final allocations by about 15,000 patient days. The total number of patient days used by the counties exceeded the final allocations of the department by about 9,000 patient days; the total was about 109,000 patient days less than the allocations proposed by the Legislature in the Supplemental Report of the Committee on the Budget Bill of 1980. Department policy stated that large counties will be charged for 50 percent of the cost of state hospital use in excess of allocated patient days. However, as of September 30, 1982, the department had not reduced any local assistance funds because it had not decided whether to use the final allocations calculated by the department or the initial allocations based upon the Supplemental Report to calculate the maximum amount of state funds available to each county.

ACTIVITIES OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA IN CONNECTION WITH THE PERIPHERAL CANAL

Summary of Findings

We reviewed the public information activities of The Metropolitan Water District of Southern California (district) in connection with the Peripheral Canal (canal).

The district provided information on the canal through its Public Information Division, its Speakers Bureau, and its lobbyist. Although we could determine how much money the district paid to outside vendors for materials pertaining to the canal, we could not identify the district's internal costs for public information activities and materials, nor could we determine the district's costs for lobbying efforts related to the canal. Nevertheless, we found that during the period from July 1979 through June 1982, the Public Information Division paid approximately $83,000 to outside vendors for producing materials related to the canal, and we estimate that the district paid less than $8,800 to employees and directors for expenses they incurred while participating, through the Speakers Bureau, in programs related to the canal.

Although the district's Public Information Division (division) distributed information specifically related to the canal, including pamphlets and exhibits, and conducted tours of the Sacramento/San Joaquin River delta, we could not determine the extent of the division's staff costs for work on those activities because the district's accounting records do not identify staff time associated with specific issues. In addition, the division chief could not estimate the costs associated with staff work related to the canal. Moreover, although the district's lobbyist was active in connection with the canal, the district's records do not identify costs associated with lobbying specific issues such as the canal.

To ensure that its public information conforms with state and local laws, the district has established criteria to govern its presentation of public information. We submitted to the Legislative Counsel materials prepared by the district relating to the Peripheral Canal. In the opinion of the Legislative Counsel, nothing in these materials clearly constituted improper campaign activity.

THE CALIFORNIA MUSEUM OF SCIENCE AND INDUSTRY: A LIMITED REVIEW

Summary of Findings

The Board of Directors of the California Museum of Science and Industry needs to address problems associated with the relationships between the California Museum of Science and Industry (museum) and the California Museum Foundation of Los Angeles (foundation), and between the museum and the University of Southern California (USC).

The museum's director and chief deputy director perform dual roles: in addition to their state duties, the museum's director administers foundation operations as its executive vice president; and the museum's chief deputy director serves as the foundation's administrative vice president. From the State, the museum's director receives a salary of $50,784; from the foundation, he receives annual consultant fees of $29,216 and an annual expense account of up to $20,000. The museum's chief deputy director receives a state salary of $43,800, foundation consultant fees of $8,400, and an annual foundation expense account of up to $1,200. The museum's public relations officer may also incur foundation-related expenses.

In a preliminary report, the Department of Personnel Administration concluded that the foundation's stipends and expense accounts for these employees appear to be inappropriate because the employees are receiving additional compensation for performing official state duties or for performing duties incompatible with the Government Code. The director and the chief deputy director state that they each perform two separate jobs for which they receive compensation from the State and the foundation.

We also found problems regarding responsibilities for exhibits. Because the Board of Directors has not clearly defined and assigned specific exhibit responsibilities to museum or to foundation staff, the museum and the foundation have not fulfilled these exhibit responsibilities. As a result, the museum includes exhibits not related to the educational themes of science and industry, and some exhibits on display at the time of our review were outdated or in disrepair.

In August and September 1982, the museum hired three program administrators to assist in preparing a master plan and three-year development program for the museum. The program administrators will also screen potential exhibits and evaluate

existing exhibits to determine which exhibits should be retained, renovated, or replaced. The museum staff will also include written policy concerning the use of museum facilities by outside organizations in the museum master plan scheduled for presentation to the board in the Spring of 1983.

Finally, the Board of Directors has not complied with the Supplemental Report of the 1982 Budget Act in one of its two parking leases with USC. The museum charges USC $3 for each car that parks in designated areas during USC home football games. One day after this lease was signed, the board established a new public parking rate during football games of $5 for each car; however, the board did not renegotiate an increase in the fee charged to USC. If the fee charged to USC had been raised to $5 per car, the museum would have collected an additional $9,596 in fiscal year 1982-83.

In the other parking lease, the museum charges USC 50 cents daily for students who park in lots leased from the museum by USC, the same rate that the museum charges for daily public parking. However, USC charges persons who do not have a valid USC parking permit $2.50 to park in these areas, even though USC pays the museum only 50 cents.

Recommendations

The Secretary of the State and Consumer Services Agency should require the Board of Directors to establish written policy governing compensation of museum employees. The Secretary of the State and Consumer Services Agency should also direct the Board of Directors to implement a plan that establishes priorities for acquiring new exhibits and evaluating existing exhibits and that clarifies responsibilities for maintaining the museum's exhibits. The Board of Directors should establish written policy regarding the use of museum facilities by outside organizations and ensure that any parking agreements with USC comply with Supplemental Report language. In addition, the Board of Directors should require that any parking leases contain a provision that precludes USC from charging persons who park on lots leased from the museum more than USC is charged by the museum.

THE AMOUNT OF RENT DUE TO THE STATE FROM BAZAAR DEL MUNDO, INC., A CONCESSIONAIRE AT OLD TOWN SAN DIEGO STATE HISTORIC PARK, IS IN QUESTION

Summary of Findings

In 1971, the Department of Parks and Recreation (department) entered into a concession contract with Bazaar del Mundo, Inc., (concessionaire) to construct, modify, and operate a Mexican-style shopping arcade in Old Town San Diego State Historic Park. Since then, the contract has been amended twice. The contract's second amendment, effective February 1, 1973, allowed the concessionaire to offset against its rental payments the costs of certain improvements to concession facilities.

We were asked to determine whether the concessionaire has made all rental payments to the State required by the contract. For the first 15 months of its operation, the concessionaire paid the correct amount of rent. For the period subsequent to the effective date of the contract's second amendment, we were unable to determine for two reasons whether the concessionaire has made all rental payments required by the contract. First, there is no clear record of agreement between the department and the concessionaire as to which improvement costs can be deducted from rental payments. Second, while rental payments are based, in part, upon a percentage of gross receipts, the department and the concessionaire disagree on the meaning of "gross receipts." As of November 30, 1981, the two interpretations could mean a difference of more than $111,000 in the amount of rent eventually due to the State.

Recommendations

The department and the concessionaire should formally amend the contract to clarify which improvement costs may be offset against rental payments and to specify whether the sublessees' gross receipts must be included when calculating the concessionaire's rent. Further, the department should enforce contract provisions that help determine which costs of future improvement projects can be offset against rent. The department and the concessionaire have negotiated a contract amendment that, if signed, eliminates offsetting improvement costs against the concessionaire's rent after October 1, 1982.

INSURANCE CONTRACTS FOR DENTAL CARE: RESPONSE TO QUESTIONS POSED BY THE LEGISLATURE

Summary of Findings

In response to the State Employees' Dental Care Act, the Department of Personnel Administration (DPA) negotiated with the various employee organizations and ultimately signed with each bargaining unit a memorandum of understanding regarding dental coverage. The California State Employees' Association (CSEA) is the exclusive representative for ten of these units. The DPA retains responsibility for dental benefits for nonrepresented employees and retired annuitants. To fund the dental plans, the Legislature appropriated approximately $21.2 million in the Budget Act of 1981. We answered four questions regarding contracts that the State awarded to four different insurance carriers to provide dental care to state employees.

Why did the DPA not require the CSEA to competitively bid the contracts it sponsored? The DPA did not require the CSEA and all other exclusive representatives to select their dental care insurance carriers through a competitive bidding process for two reasons. First, the DPA believed that state law did not require exclusive representatives to use a competitive bidding process to select insurance carriers. Second, the DPA believed it was fulfilling the intent of competitive bidding by requiring the CSEA-sponsored contracts to be comparable in cost and coverage to the contract that the State had competitively bid and awarded for nonrepresented employees.

How do the costs and benefits of the CSEA-sponsored dental plans compare with the plans selected by the State? To ensure equitable costs and benefits among the various plans, the DPA required all dental insurance carriers sponsored by an exclusive representative, including the CSEA, to propose a plan that met certain criteria and that did not cost the employee significantly more than either of the two plans selected by the State through competitive bidding. The DPA's comparative analysis of each plan's coverage and cost indicates that the CSEA-sponsored plans provide comparable benefits and do not cost significantly more than the state-selected plans.

Are there any bonding requirements for state-sponsored contracts that are not required under the CSEA-sponsored contracts? The DPA did not impose bonding requirements on any of the insurance carriers. However, the DPA did place certain qualification requirements upon the carriers. For example, the carriers had to have been in operation for at least three years, and each prepaid program had to have an enrollment of at least 20,000 persons.

Do the CSEA-sponsored contracts enable the CSEA to collect an administration fee? The CSEA-sponsored contracts do not identify any provisions for the payment of administrative fees to the CSEA by the carrier. All dental care contracts, including those sponsored by the CSEA, do provide that the carrier will pay the DPA an administrative fee up to 2 percent of the premium. This fee is designed to cover actual administrative costs incurred by the State for such items as data processing and issuing warrants. According to a CSEA official, both carriers selected by the CSEA reimburse the CSEA for the expenses that it incurs as their sponsoring organization. This reimbursement is not, however, paid out of the premiums.

REVIEW OF THE DEPARTMENT OF PERSONNEL ADMINISTRATION

Summary of Findings

The Governor's Reorganization Plan Number 1 of 1981 (Chapter 230, Statutes of 1981) created the Department of Personnel Administration (DPA). The new department assumed responsibility for representing the State in collective bargaining with state employees, for managing the components of the state personnel system subject to collective bargaining, and for the compensation, terms, and conditions of employment for state employees who are excluded from collective bargaining.

We concluded that the DPA is performing all the functions required by the reorganization plan, except for those returned to the State Personnel Board by mutual agreement or by subsequent legislation. However, we did not assess the quantity of work associated with these functions or the quality of the DPA's work. Our analysis showed that the reorganization did not significantly affect the management-to-staff ratios in the contributing agencies.

During its first year of operation, the DPA encountered some staffing and fiscal problems. The complexity of the functions associated with collective bargaining increased the workload of the DPA's staff. Consequently, the Contract Administration Division has been unable to revise promptly the State Administrative Manual and the Personnel Transactions Manual. Also, because of the increased caseload, DPA attorneys are unable to fulfill all of their responsibilities in litigating charges of unfair labor practices on behalf of state agencies.

Additionally, the DPA experienced fiscal difficulties because it incurred expenses not funded by the reorganization and because the State faced a financial crisis. We identified budget deficiencies totaling approximately $604,000. To help offset some of these fiscal deficiencies, the Department of Finance approved the DPA's request for an additional $256,000 to augment its budget for fiscal year 1981-82. However, due to cost-cutting measures, which included leaving five positions vacant, the DPA required only $86,000 of the $256,000 authorized.

LOBBYING ACTIVITIES OF COUNTY GOVERNMENTS

Summary of Findings

We were asked to determine whether the sources of funds used by counties to support lobbying activities can be specifically identified and whether any funds that the counties receive from the State are used to support lobbying activities. Funds used by counties to support lobbying activities come from a variety of sources, including property taxes, fees, and state funds that the counties receive that are not earmarked for the support of specific programs.

In 1980, ten county governments reported expenditures totaling $718,349 for lobbying activities. In 1980 the salaries of lobbyists constituted 73 percent of these expenditures. The remaining 27 percent included reimbursements for entertainment, office space, supplies, bill service, clerical support, and travel.

Because counties commingle various sources of revenue into one cash account, a particular expenditure of county funds cannot always be tied to a given revenue source. In other words, the specific amount of each source of funds supporting county lobbying activities cannot be identified. However, it was possible to determine that the funds that counties use to support lobbying are funds that are not restricted to the support of specific programs.

Although lobbyists and employers of lobbyists submit quarterly reports to the Secretary of State summarizing their expenditures for lobbying, these reports do not represent all funds spent on lobbying activities during the reporting period. The Political Reform Act does not require elected county officials, or any elected public official acting in their official capacity, to report expenses incurred while lobbying state legislative or executive officials. Furthermore, some persons who lobby state officials do not lobby frequently enough to require that they disclose their lobbying activities. Consequently, counties may be spending more for lobbying than the amounts disclosed in their quarterly reports.

THE CALIFORNIA PUBLIC BROADCASTING COMMISSION NEEDS TO CLARIFY POLICIES AND CORRECT ADMINISTRATIVE DEFICIENCIES

Summary of Findings

The California Public Broadcasting Commission (CPBC) is an independent state agency responsible for encouraging the growth and development of public broadcasting in the State. CPBC activities include making grants to public broadcasting stations and facilitating the distribution of public television and radio programs. However, administrative deficiencies are reducing the CPBC's ability to carry out its legislative mandates. These deficiencies relate to the CPBC's process for awarding contracts and grants, its fiscal procedures, and its policies and procedures related to personnel.

The CPBC does not have a formal policy that sufficiently defines the executive secretary's authority to award contracts and grants. As a result, the executive secretary has made decisions regarding contracts and grants that may not reflect the CPBC's priorities. Furthermore, the CPBC has allowed contractors to begin work before their contracts received final approval from the Department of General Services, and the CPBC awarded two contracts when the availability of funds was uncertain. As a result of these conditions, the CPBC has incurred unapproved financial liabilities. In one instance, the CPBC was liable for $31,000 because it awarded a contract that had not been formally approved by the Department of General Services. Further, the CPBC did not award direct aid and fellowship grants for fiscal year 1981-82 in a timely manner. For fiscal year 1982-83, however, the CPBC did award these grants more promptly.

The CPBC needs to improve its fiscal procedures. Because the CPBC has not properly charged expenditures to specific programs, it cannot accurately determine actual program costs and use these costs for planning future programs. The CPBC has also overexpended budgeted amounts. Additionally, the CPBC lacks a formal policy for determining which budget decisions require approval by commissioners and which budget decisions may be made by the executive secretary alone. Consequently, the executive secretary may make budget changes and redirect resources in ways that do not reflect CPBC priorities.

Finally, the CPBC has exhibited weaknesses in personnel administration. The CPBC has not fully complied with state policies and regulations regarding the hiring of special

consultants and the reporting of attendance. As a result, the CPBC may incur unapproved financial liabilities and unnecessary costs. In addition, the CPBC has allowed staff to be routinely paid for overtime; this action does not demonstrate good administrative practice, and it increases state costs. Furthermore, because the CPBC has not fully established procedures for identifying potential conflict of interest, commissioners may participate in decision-making activities that involve a conflict of interest. As a result, state policy could be formulated for private or personal interests and not in the best interest of the State.

Recommendations

To address the problems related to contract and grant administration, the CPBC should develop formal written policies clearly defining the authority of the executive secretary, the CPBC chairman, and the grants and budget committees in approving contracts. The CPBC should also comply with current state policies by not allowing a contractor to start work before the contract is approved and by not awarding a contract until all required funding approvals have been obtained.

To address the problems related to fiscal procedures, the CPBC should implement cost allocation procedures that will identify all costs by budgeted programs. The CPBC should also monitor expenditures closely to ensure that budgeted amounts are not overexpended. In addition, the CPBC should develop a formal written policy that will sufficiently define the executive secretary's authority and the authority of the budget committee in making budget changes.

Finally, to address the problems related to personnel administration, the CPBC should comply with state regulations and policies regarding the hiring of special consultants, reporting attendance, and compensating for overtime. Furthermore, the CPBC should establish procedures for reviewing all economic interest statements submitted by commissioners, and it should seek legal opinions when personal interests may conflict with CPBC policy decisions.

THE CALIFORNIA PUBLIC UTILITIES COMMISSION NEEDS TO IMPROVE ITS REGULATORY CONTROL OF UTILITIES' CONSTRUCTION PROJECTS

Summary of Findings

The California Public Utilities Commission (CPUC) does not have adequate procedures for approving and monitoring power-generation projects such as the Pacific Gas and Electric Company's (PG&E) Helms Pumped Storage Project. Thus, the CPUC may not be able to ensure that the costs of construction projects are legitimate. Further, the CPUC lacks sufficient information to effectively identify unreasonable costs and to review utility requests for increased rates. As a result, utility consumers may eventually pay for construction costs that should not be included in the rate base.

The CPUC conducted limited analysis before approving the Helms Pumped Storage Project and relied on outdated information to assess the need for and the cost of the project. In addition, the CPUC made no effort to ensure that adequate management systems were in place before the construction of the project began. The CPUC also did not develop a process to monitor the construction of the Helms Project. The CPUC did not require regular progress reports, and it did not review the project until four years after construction had begun.

Because of these weaknesses in its approval and monitoring procedures, the CPUC did not regularly collect information on project costs, and it lacks assurance that project management systems are adequate. Consequently, it will be difficult for the CPUC to ensure that all costs of the Helms Project were legitimately incurred and thus protect the consumer from improper rate base increases. Although the CPUC plans to review the final costs of the project, such after-the-fact reviews may not be effective in assessing the reasonableness of project construction costs.

The effect of the CPUC's project approval and monitoring deficiencies becomes more significant when there are weaknessess in utility project construction that could contribute to increases in the cost of the project. For example, although the civil construction contract adequately protects the interests of both PG&E and the contractor, it contains certain provisions that may limit the contractor's incentive to control costs. Because of one weakness in the contract, the contractor received his minimum fee almost three

years before completing construction of the project. Also, while PG&E established and generally adhered to project control systems, weaknessess in scheduling work, reviewing invoices, and auditing may affect the cost of the project. During the first two years of the project, a comprehensive system for controlling schedules was not in place, nor was the auditing of the contractor's costs and operations adequate. Our review of the contractor's invoices revealed some gaps in the documentation of costs upon which PG&E based the monthly payments to the contractor. Finally, PG&E's application for a rate adjustment contains unclear and incomplete information on the reasons for cost overruns in the Helms Project.

Recommendations

To correct weaknesses in its systems for approving and monitoring the construction of utilities' power-generation projects, the CPUC should develop written standards and procedures for reviewing and approving project applications and for monitoring the construction of utility projects. These procedures should include a method for reviewing the project management systems and the major provisions of civil construction contracts before construction begins. Monitoring requirements should appear in formal, written guidelines, and they should be a condition of the project's approval. The CPUC should also establish criteria for determining whether the final costs of a project are reasonable. Finally, during the Helms' Project rate increase proceedings, the CPUC should focus on the factors that contributed to increases in the cost of the project. Specifically, the CPUC's review should include an assessment of the unforeseen geological conditions, the delays in the construction schedule, and the performance of the contractor.

THE CALIFORNIA PUBLIC UTILITIES COMMISSION NEEDS TO IMPROVE ITS RATE REVIEW SYSTEMS

Summary of Findings

Our review of ten rate change cases that the California Public Utilities Commission (commission) acted on between 1980 and 1982 revealed that commission analyses of rate change requests are sometimes incomplete and inconsistent and that they sometimes involve duplicate efforts by the commission staff. While the commission deletes millions of dollars annually from rate increase applications, it approves some utilities' requests for rate changes without a thorough analysis of all factors that can affect rates.

In one general rate change case, commission staff did not adequately analyze project costs of additions to plant claimed by the utility. Although the staff reported to the commission that all projects costing over $1 million were analyzed, only 17 of 61 such projects were analyzed. The projects that were not analyzed accounted for approximately $150 million (58 percent) of the $258 million total for projects costing over $1 million. For the projects that the staff did analyze, analysts recommended reducing the utility's project costs by more than $37 million.

In two general rate cases we reviewed, the commission staff did not thoroughly analyze expenses claimed by utilities for routine operation and maintenance. When staff did analyze these expenses, staff recommended large reductions in the expenses that the utilities claimed. In one instance, staff recommended deleting over $1 million from routine operation and maintenance expenses.

In one general rate case, commission staff applied an inflation factor to the utility's rate base that was lower than the utility's estimated inflation factor, but the staff failed to apply a reduced inflation factor to another utility's rate base in a similar case. Failure to apply the lower inflation factor in this case resulted in inappropriate additions of at least $8.2 million to this utility's rate base. This inappropriate addition could result in overcharges to consumers of up to $1.9 million per year.

In fuel cost adjustment cases for gas utilities in 1982, the commission's auditors audited one gas company but did not audit another in a similar case. In the audit that was performed, the staff recommended that the utility's requested revenue be reduced by nearly $102 million.

Because managers have not adequately coordinated staff activities, auditors and engineers have performed duplicate efforts in some cases and have neglected to analyze some items in other cases. In three fuel cost adjustment cases for electric utilities, engineers and auditors requested duplicate information from the utilities. Out of a total of 188 data requests made by engineers and auditors to obtain information from the utilities, we found that 60 involved duplicate requests.

Incomplete and inconsistent commission analyses and inadequate coordination of staff have occurred because the commission lacks written standard procedures to direct staff in reviewing utility requests for rate changes and because some supervisors did not adequately review staff work. The commission also lacks a centralized system for collecting and maintaining data. Finally, the commission may not have sufficient staff to perform all of the tasks it is responsible for. However, the commission cannot determine appropriate staffing levels because it lacks adequate staffing data.

The commission has recently initiated several changes that will address some of the weaknesses we identified. The Utilities Division has developed draft standard procedures to guide engineering staff in reviewing fuel cost adjustment cases and has developed a draft form for utilities to report data on monthly operations and fuel use. Also, in response to the increasing complexity of utility rate cases, the commission reorganized some review functions and added additional staff to expedite its methods of analyzing utilities' requests for rate changes.

Recommendations

The commission should develop and follow standard procedures for reviewing requests for rate changes, and it should develop a standard form for utilities to use in submitting their requests for rate changes. The commission also should establish and follow management review and quality control procedures, and it should develop workload staffing data.

A DISCUSSION OF THE DEPARTMENT OF REHABILITATION'S DECISION TO SUSPEND SERVICES TO THE DISABLED DURING FISCAL YEAR 1980-81

Summary of Findings

During September 1980, the Department of Rehabilitation (department) suspended most rehabilitation services to new applicants. This suspension of services, which lasted up to three months, may have had detrimental effects on some disabled persons. As a result, we were asked to investigate why the department chose to suspend services, whether the department's decision to suspend services was based upon accurate projections of available funds and expenditures, and why management delayed taking action to reduce expenses when potential financial problems had been suspected at a much earlier date.

During fiscal year 1980-81, the federal government reduced the amount of grant funds for rehabilitation allocated to California. Because it did not anticipate this reduction, the department budgeted $10.9 million more than it actually received. In addition, unbudgeted costs for salary and benefit increases compounded the department's financial problems. In July 1980, at the very start of the 1980-81 fiscal year, the department's budgeted expenditures exceeded its estimated available funds by $14.9 million. To counterbalance these problems, the department took several actions to reduce its expenditures for the year: made significant cutbacks in its programs and operations during fiscal year 1980-81; continued its hiring freeze; placed restrictions on expenditures for clients; and suspended certain rehabilitation services for a three-month period.

However, approximately five months lapsed between the time the department was aware of its potential financial problems and the time that it implemented major policies aimed at reducing rehabilitation costs. If the department had acted earlier, it might have alleviated the need to suspend certain rehabilitation services. Department officials stated that they hesitated to cut back rehabilitation services primarily because they expected the Congress to appropriate more funds than were initially promised by federal administrators.

As a result of the department's suspension of certain services, the department's waiting lists of eligible individuals grew and rehabilitation services to these individuals were delayed. The overall effect of this delay is uncertain. Some individuals may have been prevented from achieving program goals and others may have extended their dependence on public assistance. Some individuals who were denied services may have independently secured employment.

The department suspended services because it predicted that it would run out of funds by mid-March 1981. This projection later turned out to be inaccurate because management did not estimate the effects of its cost-saving measures and because staff overestimated the number and cost of rehabilitation plans implemented during the year. As a result, instead of running out of funds, the department ended the year with $9.1 million in unspent funds.

REVIEW OF THE PUBLICATION OF A PAMPHLET ON PESTICIDE REGULATIONS ISSUED BY THE RESOURCES AGENCY

Summary of Findings

We have reviewed the publication of a document issued by the Resources Agency entitled "California's New Pesticide Regulations and You." The objective of this review was to respond to specific questions concerning the appropriateness of the State's issuing a publication prepared by a private organization. Specifically, we were asked to determine the following: if the information contained in the pamphlet was prepared by a private organization; if the pamphlet was published with state funds; the cost of printing and distributing the pamphlet; and the legality of using state funds to publish information prepared by a private organization.

Our review disclosed that the text of the pamphlet released by the Resources Agency had been prepared by the Environmental Defense Fund, Inc., a private organization. We also learned that state funds were used to publish the document and that the cost to the State of printing and distributing the pamphlet totaled approximately $3,231. We asked the Legislative Counsel for an opinion regarding the legality of using state funds to publish information prepared by a private organization. The Legislative Counsel responded that public funds may be spent to print and distribute such information.

THE DEPARTMENT OF SOCIAL SERVICES' REFUGEE RESETTLEMENT PROGRAM: RESPONSE TO QUESTIONS POSED BY THE LEGISLATURE

Summary of Findings

We reviewed aspects of the Refugee Resettlement Program, as administered by the Department of Social Services through its Office of Refugee Services (ORS). The objective of this program is to make refugees socially and financially self-sufficient in the shortest possible time.

We found that the ORS allocated federal funds to service regions according to the number of refugees receiving cash assistance in each region. This methodology was consistently applied throughout the State. However, the ORS made a rounding error that resulted in $165,073 in available funds that were neither allocated for contracts throughout the State nor used exclusively for employment-related services.

Because ORS officials could neither provide us with specific criteria nor specify how factors were weighted or ranked in allocating funds, we could not determine if the ORS allocated funds to providers consistently. We noted that in developing the allocation methodology, the ORS did consult with some community agencies involved with refugee services. In addition, because of the lack of sufficient budget data in proposals submitted by providers, the ORS was not always able to evaluate the cost effectiveness of these proposals. As a result, there is no assurance that the ORS was allocating funds to the most cost-effective providers.

Because the ORS did not provide written guidance, some providers were confused by the ORS interpretation of the budget control language concerning the priority of refugees to be served. Also, the ORS did not adequately pretest its reporting forms. This lack of clear policy concerning the budget control language and the lack of adequate pretesting of forms contributed to vacancies in programs for refugees.

The ORS had not adequately assessed the performance of the program or the providers for federal fiscal year 1981. However, for federal fiscal year 1982, the ORS planned or initiated actions to assess the effectiveness of the refugee program and its providers. The ORS should thus be able to assess the effectiveness of the program and the service

providers on a regional and a statewide basis. Until these plans are implemented, however, there is no assurance that the objectives and goals of the program are being met.

Recommendations

To ensure that calculating errors do not occur in the future, the ORS should use actual figures instead of rounded figures in calculating the quarterly allocations. The ORS should reconcile the total federal allocation to the amount calculated by the ORS for regional distribution. To ensure that the process for allocating funds to providers is consistently applied, the ORS should promulgate written policies and procedures governing the allocation of funds to service providers. These policies and procedures should include specific criteria and methods to weigh and rank these criteria for determining the providers to be funded and the funding level for each provider.

To ensure that funds are allocated to the most cost-effective providers, the ORS should require applicants to submit budgets for each service component that they offer. Also, the ORS should include cost-benefit analyses in its allocation process.

To ensure that providers interpret ORS policy consistently, the ORS should provide clear and consistent written guidance to providers concerning this policy. The ORS should adequately test its forms before using them.

Finally, to ensure that the ORS implements its provider and program assessment measures, the Department of Social Services should provide the Legislature with a report by June 30, 1982, that addresses, but is not limited to, the following: use of monthly reports in assessing the performance of providers; collection of monthly reports to assess the effectiveness of the program throughout the State; implementation of new procedures for monitoring providers' monthly expenditure claims; implementation of new procedures for measuring and comparing the cost effectiveness of providers; and, timeliness of program monitoring visits.

EFFORTS BY THE DEPARTMENT OF SOCIAL SERVICES TO OBTAIN FEDERAL FUNDING FOR EMERGENCY ASSISTANCE

Summary of Findings

The Social Security Amendments of 1967 allow states the option of establishing emergency assistance as a component of the Title IV, Aid to Families With Dependent Children (AFDC) program. The purpose of this component is to provide temporary emergency assistance to needy families with children. In order to secure federal financial participation in emergency assistance payments, a state must develop an emergency assistance plan as an amendment to its existing AFDC state plan to include these services. This amendment, which requires approval by the Federal Department of Health and Human Services, must specify eligibility requirements, indicate whether migrant workers and their families will be included in the program, state what emergency needs will be met, and identify the services to be provided. The plan must also ensure that the state will provide emergency assistance without undue delay.

Since 1979, the Legislature has enacted three statutes for the purpose of obtaining federal funding for an emergency assistance program in California. In response to these three statutes, the Department of Social Services (department) on June 12, 1981, submitted two amendments to the state plan to the Region IX office of the Federal Department of Health and Human Services in San Francisco.

On August 10, 1981, the Region IX office informed the department that its proposed amendments to the state plan could not be approved as submitted. On February 19, 1982, the Region IX office presented to the department its conditions for approving the proposed amendments to the state plan. On March 8, 1982, department officials asked the federal regional office to grant a 90-day extension to enable department staff to review the federal objections to the amendment to the state plan. On April 28, 1982, the department completed a revised amendment.

In their report to the Legislature, department officials indicated that several issues have led to delays in implementing an emergency assistance program for needy families with children. They said that because the Social Security Act mandates such broad eligibility requirements for the program, the department could lose control over the program's scope, and

it would therefore not be economically feasible to implement the program. Although the U.S. Supreme Court ruled (Quern vs. Mandley, 1978) that states could limit the scope of their emergency assistance programs, department officials remain concerned that the enabling legislation was not specific about recipient eligibility. The officials believe that this lack of specificity could lead to increased General Fund obligation for the program.

The department estimated in 1981 that the State would save approximately $10.3 million annually by using Title IV-A funding for an emergency assistance program. The department estimated that, of this amount, approximately $5.6 million would come from the AFDC component for foster care and approximately $4.7 million would come from the AFDC component for unemployed parents. The department also estimated that the counties' program costs would increase by $214,300 for the foster care component and decrease by $569,000 for the AFDC unemployed parents component. Department officials stated, however, that these estimates will change as amendments are modified to meet federal requirements.

STATE AND FEDERAL PROCEDURES CAN BE IMPROVED TO ENSURE THAT SSI/SSP RECIPIENTS RECEIVE THEIR SOCIAL SECURITY BENEFITS

Summary of Findings

In fiscal year 1981-82, the federal government and the State shared the estimated $2.139 billion cost of the Supplemental Security Income/State Supplementary Program (SSI/SSP); the federal government provided an estimated $870 million for the SSI portion, and the State provided an estimated $1.269 billion for the SSP portion. Approximately 700,000 California residents received monthly SSI/SSP benefits in 1981-82. In addition to the cash grants, SSI/SSP recipients receive free medical services under California's Medi-Cal program. The cost of these medical services is shared equally by the State and the federal government.

The Federal Social Security Administration administers the SSI/SSP and the Federal Old-Age, Survivors, and Disability Insurance (OASDI) programs. The Department of Social Services is responsible for monitoring the federal SSI/SSP payment operation to assure that state funds are accurately expended and that recipients properly receive payments.

The OASDI program is supported by compulsory contributions from self-employed individuals and from workers' earnings that are withheld and matched by employers and then credited to the Social Security trust funds. The trust funds pay for the benefits and administrative costs of the program. The State's cost of providing benefits to an SSI/SSP recipient is reduced whenever that recipient begins receiving OASDI and Medicare benefits.

We reviewed the SSI/SSP to determine if recipients are eligible for OASDI benefits. We found that state agencies routinely review only a small percentage of the SSI/SSP population for potential OASDI eligibility. The state hospital system has monitoring procedures to identify potentially eligible OASDI recipients, but not all hospitals follow these procedures. Regional centers that provide services to SSI/SSP recipients have no monitoring procedures. Further, the regional centers do not maintain sufficient information to determine OASDI eligibility.

Although the Social Security Administration's application process and computer system should identify SSI/SSP recipients eligible for OASDI benefits, disabled SSI/SSP recipients are not required to report the names and social security numbers of their parents. As a result, the Social Security Administration may not be identifying disabled SSI/SSP recipients who are entitled to OASDI benefits because their parents are or were OASDI beneficiaries.

The OASDI application process is another area where SSI/SSP recipients eligible for OASDI may not be identified. If parents do not list their children on the OASDI application form, the Social Security Administration's computer is unable to match parents with their children.

Recommendations

The Department of Social Services should ask the Social Security Administration to change the SSI/SSP application form to include the names and the social security numbers of an applicant's parents. This additional information would allow the Social Security Administration automatically to determine OASDI eligibility based on the social security records of the parents of SSI/SSP recipients.

The Department of Social Services should also ask the Department of Finance and the State Controller to assess the effectiveness of the Social Security Administration's system for identifying SSI/SSP recipients who are eligible for OASDI benefits. Using this analysis, the Department of Social Services should determine the feasibility of a statewide monitoring system to identify SSI/SSP recipients eligible for OASDI.

The Department of Developmental Services should require all state hospitals to follow established guidelines for periodically reviewing SSI/SSP recipients for OASDI eligibility. The Department of Developmental Services should also require regional centers to develop a monitoring system, similar to the state hospital system, that would identify SSI/SSP recipients eligible for OASDI benefits. This monitoring system would require regional center staffs to obtain the social security numbers of their clients' parents as well as other relevant OASDI eligibility information.

THE DEPARTMENT OF SOCIAL SERVICES COULD MORE EFFECTIVELY USE THE DATA FROM THE AFDC QUALITY CONTROL REVIEWS

Summary of Findings

In comparison to other states with large Aid to Families With Dependent Children (AFDC) caseloads, California has had a relatively low rate of erroneous AFDC payments. However, the Department of Social Services (DSS) could more effectively use the data it acquires from its AFDC quality control reviews. The DSS has provided to the counties only limited analysis of available management information on AFDC payment errors. The counties, meanwhile, have expressed a need for more analysis of what causes errors and for ways of correcting these errors. A more sophisticated analysis could lead to corrective action, which could reduce the statewide error rate. Considering that, in the most recent 12-month quality control review period, California's level of erroneous AFDC payment was over $162 million, even a fractional reduction of the error rate could result in substantial savings.

Additionally, the DSS has not developed a satisfactory system to impose fiscal sanctions on counties. If a county's AFDC payment error rate is above a set standard, the DSS may withhold a portion of future funding. The system for imposing such sanctions, however, is based on estimated error rates that have been too imprecise to be used as a basis for imposing fiscal sanctions. Consequently, no sanctions have yet been imposed on counties. Moreover, the error rates are even less precise than the DSS' figures indicate.

Recommendations

The Department of Social Services should immediately begin to provide more assistance and guidance to the counties by conducting more detailed data analyses and by presenting more specific recommendations for corrective action. The DSS needs to improve the reliability of its error rate estimates and attain uniform precision intervals among counties. If, after testing alternative methods for improving the precision of the error rate, the DSS is still unable to achieve acceptable error rate estimates, the DSS should consider the overall benefits of the sanctions and at that time, propose legislation that will adequately fund the sanctioning process, create a basis for sanctions other than quality control error rates, or discontinue the sanction policy.

COMPLIANCE WITH THE COMPETITIVE PROCESS FOR CONTRACTING WITH CHILD ABUSE AND NEGLECT PREVENTION AGENCIES

Summary of Findings

As required by Chapter 1398, Statutes of 1982 (Assembly Bill 1733), we have examined the Department of Social Services' (department) compliance with the competitive process for contracting with child abuse and neglect prevention agencies. Assembly Bill (AB) 1733 directs the department to contract for three types of programs: programs for training and technical assistance, programs sponsoring local projects for preventing child abuse and neglect, and innovative programs for preventing child abuse and neglect.

We identified two problems in the Department of Social Services' contracting for child abuse and neglect prevention programs. First, training and technical assistance contracts had not been competitively bid according to state and department guidelines, and the department had selected potential contractors without sufficient justification; however, as of March 1, 1983, these contracts had not received all the required approvals. This problem is of particular concern because we addressed this same issue in a previous Auditor General report. Second, there is a potential conflict of interest in the manner in which some counties conduct the contracting process. In one county we reviewed, persons who wrote the county's request for proposal are associated with organizations that intend to bid for funds authorized by AB 1733.

We also found that the Office of Child Abuse Prevention (office) has not always determined the effectiveness of its pilot and demonstration projects aimed at preventing child abuse and neglect. The office also does not always prepare the Contractor Evaluation Sheets for child abuse and neglect prevention projects, even though the State Administrative Manual requires such evaluations. Therefore, we cannot document the effectiveness of these projects. In addition, since the office did not prepare project evaluations, receive regular reports from project operators, or prepare written on-site monitoring reports, the office cannot determine the success of its projects in reducing or preventing child abuse and neglect.

Finally, we found that the department's formula for allocating to the counties funds authorized by AB 1733 meets the intent of this legislation.

Recommendations

To correct the contracting deficiencies and to ensure a competitive contracting process at both the department and county level, the Department of Social Services should adhere to established contracting guidelines. Additionally, the department should provide specific guidelines to the counties to ensure that counties avoid the potential for conflict of interest in their contracting practices.

Furthermore, the Department of Social Services should ensure that the Office of Child Abuse Prevention obtains and maintains appropriate reporting and monitoring documentation of the progress of its future contracts; prepares Contractor Evaluation Sheets for all contracts in excess of $10,000 within 30 days of contract completion as required by the State Administrative Manual; uses available evaluation models such as those contained in the booklet "Evaluating Child Abuse Prevention Programs," to determine the effectiveness of its pilot and demonstration projects in reducing or preventing child abuse and neglect; refrains from funding any new or continuing child abuse and neglect prevention projects until it has determined the effectiveness of its already funded projects; and ensures that each of the department's future child abuse and neglect prevention contracts includes a specific requirement to evaluate the project's effectiveness in reducing or preventing child abuse and neglect.

THE DEPARTMENT OF SOCIAL SERVICES CAN REDUCE AFDC COSTS BY ENSURING THAT COUNTY CHILD SUPPORT PROGRAMS OPERATE MORE EFFECTIVELY

Summary of Findings

District attorneys throughout the State are not collecting millions of dollars in court-ordered child support payments. This is due in part to the deficiencies in the Department of Social Services' Child Support Enforcement Program. When district attorneys do not make child support collections in welfare-related cases, the federal, state, and county governments are not reimbursed for their share of these welfare expenditures. Further, counties are not receiving federal and state incentive payments on the missed collections.

District attorneys could increase their collections of child support payments through better use of enforcement actions including taking full advantage of the Tax Intercept Program to intercept the income tax refunds of absent parents. In two counties we visited, district attorneys missed the opportunity to collect at least $966,000 in tax refunds for the 1981 tax year through the Tax Intercept Program. Additionally, district attorneys are using different criteria when selecting cases for referral to the Tax Intercept Program. Consequently, child support collections are affected and absent parents do not receive equal treatment.

Some district attorneys could also increase their collections of child support if they assigned priorities to welfare cases according to absent parents' income. If the district attorney in one county we visited had adopted such a priority system, the collection of child support could have increased by at least $1.7 million during the second half of 1981.

In addition, some district attorneys do not routinely record court orders to establish liens against absent parents in order to collect child support debts. Other district attorneys, including the two we visited, do have a policy to record court orders but do not always follow their own policy. Also, most district attorneys are not using the Property Tax Exemption File to locate real property owned by absent parents in California. By not recording court orders to establish liens, district attorneys miss opportunities to collect child support payments when an absent parent attempts to buy or sell real property.

Finally, the two district attorneys we visited do not always take appropriate action to enforce collection of child support payments. These district attorneys could increase child support collections in their counties by improving their case management procedures.

Analysts of the Child Support Program Management Branch of the Department of Social Services, who monitor the district attorneys, generally do not review case files. Consequently, the analysts had not detected the inadequacies in enforcement practices that we identified in our review of a sample of case files in two counties. The branch chief has stated that the Child Support Program Management Branch is changing its monitoring procedures in fiscal year 1982-83 to include a limited review of case files.

Recommendations

To assist the district attorneys in increasing their collection of child support for welfare-related cases and thereby reduce welfare expenditures, the Department of Social Services should improve its supervision of the Child Support Enforcement Program by issuing guidelines to the district attorneys. These guidelines should provide the district attorneys with effective policies and procedures for enforcing child support obligations. The Department of Social Services should also improve its monitoring of the program by requiring its analysts to review case files of absent parents to identify ineffective policies and practices. The Department of Social Services should use the information from the case reviews to determine district attorneys' adherence to the guidelines.

THE DEPARTMENT OF SOCIAL SERVICES' ADOPTION PROGRAM NEEDS IMPROVEMENT

Summary of Findings

The adoption program of the Department of Social Services (department) provides adoption services primarily through three adoption programs: intercountry adoptions, relinquishment adoptions, and independent adoptions.

Because of delays in the adoption process, adoption agencies are not always processing adoptions within legal time requirements. These delays are due to inefficiencies within the current adoption process, inadequate staffing, and other factors such as difficulties in locating a child's natural parents and in conducting home studies for families requesting hard-to-place children.

Delays in processing adoptions can have detrimental effects on children and the adopting family. In intercountry adoptions, for example, some children who are ready for placement frequently must wait for long periods, sometimes in unfit environments. In one case, a child related to the adopting family had waited over 20 months in deprived conditions in a foreign country; the adoption agency still had not assigned the case to a caseworker.

For the adopting parents, these lengthy delays cause anxiety and frustration. As a result, some families are discouraged with the adoption process. Because of the unsatisfactory experience with the adoption process, some families have decided not to adopt children through some public adoption agencies.

Adopting parents responding to our questionnaire identified delays as a significant problem in the adoption process. Although the majority of parents rated the overall services provided by adoption agencies as above average, some of these parents indicated that adoption agencies had not provided adequate information and encouragement to continue the adoption process.

Although the State's cost of processing adoptions has increased substantially in the last 15 years, the adoption fees have remained the same for intercountry and relinquishment adoptions

and no fee has been established for independent adoptions. Consequently, the adoption fee schedule does not reflect the current cost of providing adoption services.

Adoption agencies are using inconsistent guidelines for determining eligibility and payment levels for recipients of the Aid for Adoption of Children program. In addition, the department does not have adequate fiscal controls over the Aid for Adoption of Children program payments. Consequently, recipients are not receiving equitable treatment regarding program eligibility and payment levels, and program funds are not always being used in accordance with program eligibility requirements. Recent implementation of the Adoption Assistance Program should correct the problems related to program eligibility and fiscal controls. However, inconsistencies in determining payment levels in the Adoption Assistance Program may continue because the department has not developed adequate guidelines.

Recommendations

The Department of Social Services should develop and distribute a policies and procedures manual that clarifies existing processing policies and provides procedures for improving the timeliness and effectiveness of the adoption process. The manual should also present guidelines on providing information and encouragement to parents throughout the adoption process. Further, we recommend that the Legislature enact legislation that will help streamline the method for notifying adoption agencies that an adoption petition has been filed.

In addition, the department should develop workload standards to assess current adoption staffing needs. The department should also study the feasibility of increasing the staff of the Los Angeles state adoption agency by requesting an exemption from the State's hiring freeze or by transferring caseworkers from other units.

The Auditor General engaged a private consultant to provide current information regarding a statewide public assistance network. In a two-part study, the consultant reported on Los Angeles County's Welfare Case Management Information System/Integrated Benefit Payment System and the feasibility of a statewide public assistance network incorporating both statewide supervision and county administration of public assistance programs.

REVIEW OF LOS ANGELES COUNTY'S WELFARE CASE MANAGEMENT INFORMATION SYSTEM/INTEGRATED BENEFIT PAYMENT SYSTEM (WCMIS/IBPS) (January 24, 1983)

Summary of Findings

WCMIS/IBPS comprises several hundred computer programs, several hundred display terminals, and thousands of users. Development of these systems dates back to the early 1970's and has incorporated numerous changes in project scope and magnitude. The WCMIS central index of welfare cases was converted in 1977 and the major IBPS aid programs were converted in late 1982.

Currently, WCMIS/IBPS provides information to district offices plus other centralized departments in Los Angeles County. The systems are operational and have few current significant problems. User satisfaction is high.

REVISED FEASIBILITY STUDY REPORT FOR A STATEWIDE PUBLIC ASSISTANCE NETWORK (April 15, 1983)

Summary of Findings

The passage of Assembly Bill 8 (Chapter 282, Statutes of 1979) mandated that the Department of Social Services (DSS) develop a "centralized delivery system" for the major welfare programs and, to the extent feasible, the Social Services and Child Support programs. Since 1979, the DSS has been working toward the development of that system, which has become known as the Statewide Public Assistance Network (SPAN). A Feasibility Study Report issued by the DSS in January 1981 described the proposed system, recommended specific implementation alternatives, and identified the costs and related benefits.

In May 1982, the SPAN project was suspended. The reasons for deleting of funding, as summarized in the Legislative Analyst's Report of April 26, 1982, were the significant expenditures incurred, a lack of accomplishments, and no confidence in the ability of the DSS to implement the project in the future.

The consultant concluded that the "centralized delivery system" concept (i.e., statewide direction, monitoring, and support of systems) is still appropriate and that a more efficient and effective management and data processing system is needed to standardize, coordinate, and control the administration of public assistance programs in California. Furthermore, the consultant recommended a systems development and implementation approach that is feasible and cost-effective for the State.

Finally, the consultant recommended a system management framework for the centralization and standardization of policies, procedures, and system development efforts. This framework provides for the continued county administration of welfare programs, including responsibility for data processing operations. This centralization of the development of policies and standards and decentralization of administration and data processing supports the current approach of state supervision and county administration of public assistance programs in California.

WELFARE FRAUD CASES AWAITING INVESTIGATION: NUMBER OF CASES, CAUSES OF THE BACKLOG, AND AMOUNT OF POTENTIAL RECOVERABLE FUNDS

Summary of Findings

This report responds to a legislative request for information concerning the number of welfare fraud cases that are backlogged at the county level, the causes of the backlogs, and, based on past collections, the amount of recoverable funds that these backlogged cases represent. Although state and county agencies do not keep records on such information, we were able to draw conclusions by analyzing other statistics and reviewing the operations of four counties.

As reported by the Department of Social Services, between January 1981 and December 1982, the number of Aid to Families with Dependent Children (AFDC) fraud cases pending investigation increased from 31,586 cases to 39,965 cases, an increase of 27 percent. Concurrently, AFDC fraud cases pending prosecution by district attorneys increased from 4,767 to 6,014, a 26 percent increase. While the AFDC fraud investigation caseload increased, the number of completed investigations and prosecutions decreased during this period. The number of AFDC fraud cases completed by county investigators decreased by 19 percent from 18,176 to 14,660; the number of investigators decreased by 5 percent. AFDC fraud prosecutions completed by district attorneys during this same period also decreased from 1,665 to 1,297, a 22 percent decline. In December 1982, 14,094 food stamp fraud cases were pending investigation at special investigative units; 1,071 cases were pending investigation by district attorneys. However, we could not determine a trend for food stamp fraud cases because of a change in reporting requirements pertaining to these cases.

Based on past collections reported by the counties, we estimate that the AFDC and food stamp fraud cases pending as of December 1982 represent approximately $13.1 million in recoverable funds. This estimate of potential recoveries may not be an accurate total, however, because the methods of gathering and reporting overpayment data are not the same in all counties. Overpayments that make up the $13.1 million estimate are not going uncollected while the fraud cases are in progress. Action was being taken to collect all overpayments as soon as they were identified.

A REVIEW OF THE STUDENT AID COMMISSION'S ADMINISTRATION OF MAJOR STUDENT AID PROGRAMS

Summary of Findings

The Student Aid Commission (commission) administers financial aid programs providing assistance to financially needy and academically able California students. Among these programs are the Cal Grant program series and the California Guaranteed Student Loan Program. Although our review of a sample of students showed that the commission's administration of the Cal Grant programs and the California Guaranteed Student Loan Program is for the most part adequate, several conditions demonstrate a need for improvement in the operation of individual programs.

First, the commission did not monitor schools to ensure accurate certification of students' enrollment status. Inaccurate certifications by schools resulted in overpayments of Cal Grant B subsistence allowances, Cal Grant C educational expenses, and tuition and fees for some students in each of the Cal Grant programs. At schools with a large number of Cal Grant B students, as many as 21.8 percent of the recipients at one school were overpaid for subsistence allowances. Overall, more than 9 percent of the Cal Grant B students we reviewed received overpayments for subsistence allowances. For Cal Grant C, the overall rate of overpayments for educational expenses was 7.6 percent. At least 25 percent of the Cal Grant C sample students at each of the community colleges in our sample were overpaid.

We found considerably lower rates of overpayments for tuition and fees at the schools in our samples. The commission overpaid tuition and fees for 1.2 percent of the Cal Grant A recipients, 1.0 percent of the Cal Grant B recipients, and 1.6 percent of the Cal Grant C recipients.

In addition, contrary to statutory requirements, the commission did not consider labor-short occupations when selecting Cal Grant C award recipients.

In our review of the California Guaranteed Student Loan Program, we found that the commission used a system of verifying students' enrollment status that resulted in loans being disbursed to unqualified students. At the schools we sampled, 3.2 percent of the students we reviewed had received loans inappropriately. At one of the proprietary schools we visited, the rate was over 16 percent. In addition, the system currently used by the commission provided inaccurate information on students' enrollment status and resulted in overpayments by the federal government for loan interest and special allowances to lenders.

Finally, we identified inaccuracies in the monthly financial reports provided to the commission by its California Guaranteed Student Loan Program servicer. Because of these inaccuracies, the commission cannot be certain that it received the correct amount of insurance premiums for loans.

Recommendations

To minimize overpayments of Cal Grant subsistence allowances and educational expenses, the commission should require schools to verify students' actual unit workload before disbursing checks for subsistence allowances and educational expenses. The commission should subsequently monitor those verifications. Also, the commission should collect overpayments from students. To reduce the potential for overpayment of Cal Grant tuition and fees, the commission should monitor enrollment certifications and refunds provided by schools. In addition, it should collect for overpayments of tuition and fees. To bring the commission into compliance with the legislation authorizing the Cal Grant C Program, the commission should use information on labor-short occupations in selecting Cal Grant C award recipients. To improve the operation of the California Guaranteed Student Loan Program, the commission should consider revising the system for verifying students' enrollment status. Finally, the commission should increase the size of its compliance review unit and increase the number of schools monitored each academic year. These increases can be accomplished at no net cost to the State.

A REVIEW OF THE DEPARTMENT OF TRANSPORTATION'S ADMINISTRATION OF EXCESS LAND

Summary of Findings

We reviewed the Department of Transportation's (department) administration and disposal of excess land, which consists of real property, land, and improvements that the department does not need for right-of-way or for other operations. Excess land can be improved or unimproved, residential or commercial property. As of July 31, 1981, the department's inventory of excess land included approximately 3,300 parcels valued at more than $57 million at the time of acquisition.

We also reviewed the effects that enacting Chapter 1116, Statutes of 1979, has had on the department's disposal of surplus residential property. Chapter 1116, Statutes of 1979, was enacted to benefit families who are subject to displacement and families who have low or moderate incomes. In accordance with this statute, the department must sell, at present, 262 residential properties at affordable or reasonable prices that generally fall below fair market value. By selling these parcels as mandated by the statute, the department will incur an estimated net sales loss of $11.3 million and a $1.2 million loss for repair and acquisition costs. Further, in the case of rescinded highway routes, such as Route 2 in Los Angeles County, enactment of the statute may reduce revenues to local governments. Similar effects may occur since 473 more parcels may be affected by the statute.

Other conditions have been tied to the enactment of the statute. By implementing Chapter 1116, Statutes of 1979, the department has incurred added selling costs and has adopted lengthy administrative procedures for processing property sales. Also, the statute requires the department to impose resale controls and to monitor these controls.

Our examination of parcel histories revealed that the department has not complied with state statutes or with departmental procedures in holding parcels for public agencies. While reviewing parcel files at the four district offices, we found that the department had maintained extended holds on 138 parcels for other public agencies for over two years. These parcels have an acquisition value of over $5 million.

In analyzing the excess land parcel histories, we identified 141 parcels that had been approved by management and held at the request of the engineering departments from one to eight years. The total acquisition value of these parcels is $4 million. On closer inspection, we noted incomplete or irrelevant documentation supporting the holds for 35 of these parcels that have an acquisition value of $1.8 million. As a result, the department has prevented parcels from being made available for sale, an action that has reduced revenue to the State Highway Account and may have reduced property tax revenues to local governments.

Finally, the department has not maintained an accurate management information system. We noted that the department uses inconsistent procedures in administering the inventory of excess land and that it has inadequately documented parcel files. Since these conditions prevent the department from effectively administering its inventory, they could further delay the sale of parcels.

Recommendations

To address these areas, the Legislature may wish to amend Chapter 1116, Statutes of 1979, either to ensure that the department offers surplus residential property to buyers at fair market value or to include the costs of processing and repairs in the minimum sales price for such property. We further suggest that the Legislature direct the Department of Transportation to divest itself of all interest in excess land upon sale of the land. To accomplish this, the Legislature could appoint a more appropriate agency to oversee the property and monitor all resale controls.

To ensure that holds of excess land requested by public agencies are valid, we recommend that the department require a 10 percent cash deposit for all holds exceeding one year; this deposit could be based upon the fair market value of the land. We further recommend that, in its biennial report to the Legislature, the department identify all land held for public agencies over one year and cite the reason for the hold.

To ensure that excess land is either made available for sale or classified as right-of-way at the earliest possible time, the department should adopt these actions: require that all the information requested on the hold application be complete before an approval to hold is granted; reevaluate the need for using economic analyses as a justification for holding parcels for project or operational purposes; and, reevalute the parcels currently held for public agencies and reclassify the parcels appropriately.

To ensure that inventory procedures and practices are administered consistently and adequately, the department should establish explicit guidelines for classifying parcels and for detailing how categories may be used, immediately follow up on all compliance reviews to ensure that identified deficiencies are corrected, and emphasize the need for adequately documenting and maintaining parcel files in the compliance review.

THE DEPARTMENT OF TRANSPORTATION'S REPLACEMENT OF THE TOWN CREEK BRIDGE: RESPONSE TO QUESTIONS POSED BY THE LEGISLATURE

Summary of Findings

This report addresses questions posed by the Legislature regarding the replacement of a 20-foot wide bridge and its 6-foot wide walkway by either a 32-foot wide bridge or a 40-foot wide bridge across Town Creek on Highway 162 in Mendocino County. The project involves construction of two replacement bridges, one over Town Creek and one over Grist Creek. The bridge over Grist Creek will be replaced by a 32-foot wide structure. The Director of Transportation decided to replace the second bridge and its 6-foot wide walkway with a 32-foot wide structure also. Both existing bridges were being overloaded, and there are cracks in the supporting girders.

Federal design standards require the replacement bridge over Town Creek to be 40 feet wide. The proposed 32-foot wide replacement bridge at Town Creek does, however, meet the minimum design standards established by the Department of Transportation (department). The state Highway Design Manual provides that when federal and state standards differ, the state standards shall prevail.

The department applied to the Federal Highway Administration for an exception to federal standards. In February 1982, the Federal Highway Administration denied an exception on the 32-foot wide Town Creek Bridge. The department appealed the Federal Highway Administration's decision. Although the department may not receive federal funds for constructing the Town Creek Bridge, the department will still receive its share of the federal funds available for the repair and replacement of other bridges in California.

In our judgment, the Director of Transportation made a management decision in selecting which of two proposals to implement. In October 1981, two options--one for a bridge 32 feet wide, the other for a bridge 40 feet wide--were presented to the Director of Transportation for resolution. Both proposals were developed by licensed civil engineers employed by the department. The director stated that this was the first time that she was aware of the proposed project. She examined both alternatives and recommended that a 32-foot wide bridge be constructed at Town Creek. She said that this structure would be more appropriate because it would cost less to build and because it would preserve the continuity of the roadway.

Based on the most recent data available, the current proposal for constructing a bridge 32 feet wide may cost the State about $29,000 less than constructing a bridge 40 feet wide. Furthermore, no matter which version of the bridge is built, the six-month delay will enable the State to earn $10,000 in interest income on unspent state funds deposited in the Surplus Money Investment Fund, and the State will save between $31,000 and $32,500 due to a recent decline in the construction price index. However, if the 32-foot wide bridge is constructed solely with state funds rather than with 80 percent federal funds as originally proposed, there would be an additional state investment of approximately $345,000. By committing these state funds, the State would forego about $3,500 per month in interest until federal funds for all bridge replacements were exhausted for the year.

We were asked to determine if department engineers would violate the Professional Engineers Act concerning design safety by building a bridge at Town Creek that is 32 feet wide. The Professional Engineers Act defines the practice of civil engineering as including the "preparation and/or submission of designs, plans and specifications and engineering reports." Neither the act nor the related regulations, however, specify particular design standards to be applied in any given situation.

Engineers in the Eureka district department office, engineers in Project Development and Construction, and officials of the Federal Highway Administration were concerned that a 32-foot wide bridge would not meet the safety needs of nonmotorized traffic. However, engineers in Planning and Programming and the Chief of the Office of Bicycle Facilities did not agree that a 40-foot wide bridge was necessary at Town Creek because they believed that a 32-foot wide bridge would meet the needs of nonmotorized traffic.

Department design standards generally recognize that wide roadways are safer for motorists than narrow roadways. However, if either the 40-foot wide bridge or the 32-foot wide bridge were constructed, pedestrian and bicycle traffic would be combined with cars and trucks on the same bridge. The existing 20-foot wide bridge has a separate 6-foot wide walkway for pedestrians and bicyclists.

THE STATE'S SYSTEM FOR PLANNING, PROGRAMMING, AND DEVELOPING HIGHWAY CONSTRUCTION PROJECTS IS NOT EFFECTIVE

Summary of Findings

The State's current system for planning, programming, and developing highway construction projects leads to delays in project schedules and increases in project costs. Because highway improvement projects are not delivered as programmed, some of the State's transportation problems are not being eliminated as quickly as they could be, and some highway improvement projects are costing millions of dollars more than originally estimated. Deficiencies in the planning and programming of projects, in the centralized review of environmental documents, and in management control over project development are three principal causes of the current problems. We found no evidence that the delays resulted from policies of the agencies involved to slow construction projects intentionally.

The State Transportation Improvement Program (STIP) is the annual projection of expenditures for improving the State's transportation facilities. The STIP covers a five-year period. However, because of numerous changes in the delivery dates and the estimated costs of projects, the STIP cannot be depended upon as a firm schedule of projects programmed over the five-year span. Approximately 30 percent of the over 1,200 projects we reviewed in the 1980 STIP either encountered schedule delays or were deleted from the STIP. Two hundred twelve of the 1,257 projects we reviewed in the 1980 STIP have been delayed one or more years; the associated increase in capital costs was approximately $230 million. Similarly, 131 of the projects we reviewed in the 1981 STIP have been delayed, with cost increases over $503 million. Furthermore, 180 projects listed in the 1980 STIP were deleted before the 1982 STIP was prepared.

There are complex multiple reasons for these schedule and cost changes. The hurried annual STIP development cycle and the constrained five-year STIP period lead to inadequate initial definitions of schedules and costs, resulting in changes when more information is gained from field study. In addition, the Department of Transportation's (department) procedures for assigning priority to projects each year have resulted in projects' being delayed or deleted from the department's

proposed STIP. The numerous changes in delivery dates and costs decrease the efficiency of the programming of available funds and the department's project development.

The department's centralized process for reviewing and approving environmental impact documents is repetitious and time consuming. Various environmental documents must be approved both at the district level and at department headquarters at each step in a series of formal reviews. Approximately 30 percent of the total time necessary to obtain final approval of a project is spent at several steps in the review by department headquarters.

Finally, the department is not exercising adequate management controls to ensure that individual projects are delivered according to original schedules and within estimated development costs. Almost 25 percent of the projects in our sample were more than one year behind schedule. We also estimate that $136 million more than the amounts estimated will be spent for planning and design of 3,913 highway construction projects. Further, the department is not exercising adequate control to ensure that only projects on the current list of authorized projects are being worked on. We found 329 major projects, involving project development expenditures over $3 million, that were being worked on but that were not on the department's current list of authorized projects. Although a number of factors can affect project schedules, proper management controls could reduce project delays, schedule changes, and cost overruns and thus increase the performance of the project delivery process.

Recommendations

The California Transportation Commission and the Department of Transportation could improve the efficiency of project delivery by establishing a system that adequately identifies estimated costs and alternatives for projects before the projects are listed in the STIP. The department could further improve the performance of the project delivery system by delegating authority for review and approval of certain environmental documents and other reports to district management and to qualified district coordinators and reviewers from headquarters. Such delegations should reduce the amount of time required for environmental review and approval. Finally, the department needs to institute additional management controls over project development.

UNIVERSITY OF CALIFORNIA PROPERTY MANAGEMENT

Summary of Findings

This report updates the 1978 Auditor General's audit of California property owned or controlled by the Regents of the University of California (regents). It also answers specific questions posed by the Legislature that deal with four areas: property owned or controlled by the regents; property used for purposes other than those for which it was acquired; property that is not used for academic purposes; and revenue realized by local governments from possessory interest tax on university property.

Since 1976, University of California (university) property used for academic purposes has increased by 4,522 acres to a total of 53,115 acres. Most of this increase consisted of additions to the university's Natural Land and Water Reserves System. During this period, the university also received 53 new endowment properties. Endowment property now totals approximately 10,000 acres. In total, the university has acquired an additional 4,902 acres of academic and endowment property since 1976.

In addition to its property holdings, the university leases space for academic programs that cannot be accommodated in present university facilities. In fiscal year 1981-82, the university paid $8.2 million to lease such space. The university followed proper procedures in leasing this space and leased it at a rate equal to or lower than prevailing rates for comparable property in the same area. The university did not lease space in locations where it owns suitable endowment property.

The present uses of property acquired since 1976 are consistent with the purposes for which the property was acquired. Also, at the two University of California campuses we visited, we found that university officials generally followed required review and approval steps for acquiring and disposing of real property.

The university owns property, acquired prior to 1976, that is not used for academic purposes. Some of this property has been designated for future academic use; other property is not currently so designated. Some of the property not designated for academic use is not suitable for development but is being retained because of utilitarian, scientific, historical, or

aesthetic value. However, some of this property is also currently used for research purposes. The university's endowment property is not ordinarily used for academic purposes.

We also collected information on property taxes assessed on university property that is leased out to private interests. All property owned by the university, whether used for academic programs or not, is exempt from property taxes. However, when university property is leased to private interests, this property is subject to a possessory interest tax that is paid by the lessee. In fiscal year 1981-82, 16 California counties that responded to our review collected an estimated $100,000 in possessory interest taxes on university property. The tax yield from possessory interest tax is lower than the tax yield would be if the property were taxed at a rate applied to privately owned property. These California counties would have collected at least $422,200 in additional tax revenues if the university property leased to outside interests had been taxed as though privately owned.

MANAGEMENT AND ADMINISTRATION OF THE VETERANS HOME POST FUND

Summary of Findings

The Veterans Home of California (home), located in Yountville, is a home for aged and disabled California veterans. The home provides a community of services for California veterans to improve their overall health, reduce the incidence and severity of their disabilities, and increase their social interaction in an environment that promotes self-reliance and self-worth.

The home is under the control of the Department of Veterans Affairs and is subject to the policies of the California Veterans Board. The home's daily operations are managed by the commandant, subject to the direction of the Director of the Department of Veterans Affairs.

The commandant's fiscal responsibilities include managing a post fund and several trust funds subject to the approval of the Director of the Department of Veterans Affairs. By statute, these funds are excluded from deposit with the State Treasurer. At the close of fiscal year 1981-82, the home's post fund had a cash balance of $805,552 and the trust funds a balance of $3,197,802. The home invested $3,820,000 from these funds in certificates of deposit in savings and loan associations and in two banks.

We reviewed the management and administration of the Veterans Home Post Fund and the appropriateness of the investments of post fund and trust funds monies made by the home. We found the home's administrative procedures relating to the management of the post fund to be in conformance with the statutory requirements. We also found that the investments of post fund and trust funds monies were generally placed in certificates of deposit at savings and loan associations; these are acceptable types of investments. Although the home's investments should have been fully secured, as of September 20, 1982, ony $400,000 of the $3,650,000 total investment was secured.

We were asked to report the circumstances surrounding the $3,000 post fund expenditure to hire an ombudsman for the members of the home. The Director of the Department of Veterans Affairs, acting on his authority to direct the affairs of the home, under Section 1014 of the Military and Veterans Code, hired an ombudsman to facilitate communication between the members of the home and the Department of Veterans Affairs.

On September 1, 1982, the Director of the Department of Veterans Affairs requested a revision to the post fund budget to provide a $3,000 salary advance to the person he hired to act as the ombudsman. The State Personnel Board approved the limited-term appointment as a special consultant to the director, effective September 28, 1982. The position was approved for a maximum of nine months, even though the director had requested the position for a maximum period of three months. The special consultant (ombudsman) agreed to reimburse the post fund for the $3,000 advance by December 1, 1982.

ADEQUACY OF THE FOSTER CARE OPERATIONS PROVIDED FOR YOUTHS UNDER 18 BY THE DEPARTMENT OF THE YOUTH AUTHORITY

Summary of Findings

We reviewed the adequacy of the foster care operations provided by the California Department of the Youth Authority (CYA) for youths under age 18. The objectives of the audit were to (1) determine the types of foster care services offered to CYA parolees under the age of 18; (2) identify the CYA's criteria for selecting facilities, evaluating programs, and ensuring adequate care; and (3) assess the compliance of a sample of foster homes with CYA standards and other requirements.

We found that of the total CYA parole population of about 7,000, 652 were under age 18 as of September 22, 1982. On that date, the CYA's out-of-home placement program was contracting with group and foster homes throughout the State to provide residential services to 48 wards under the age of 18. This number represents 7.4 percent of CYA parolees under the age of 18 and less than 1 percent of the total CYA parole population. During our visits to eight foster care facilities located in northern and southern California, we noted that the facilities appeared to comply with the CYA's proposed facility standards and other legal requirements. The CYA adopted final standards in December 1982. We found no evidence that wards were receiving less than adequate care and supervision at the facilities we visited.